

**NATURE OF TRUST IN SMALL FIRM  
CLUSTERS: A CASE STUDY OF KANPUR SADDLERY  
CLUSTER**

*A Thesis Submitted  
in Partial Fulfillment of the Requirements  
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*by*

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*to the*

**DEPARTMENT OF HUMANITIES AND SOCIAL SCIENCES  
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# CERTIFICATE



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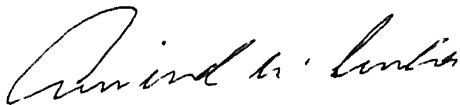
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## **SYNOPSIS**

### **NATURE OF TRUST IN SMALL FIRM CLUSTERS: A CASE STUDY OF KANPUR SADDLERY CLUSTER**

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By

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Small firms have shown remarkable economic success in many industries and places across the globe. Traditionally, policy makers have put their focus on the needs of isolated firms. Research on industrial districts (IDs) and small firm clusters (SFCs) show that the relevant unit for local development may be the region as a whole. Firms in such settings do not stand alone, but are enmeshed in a complex web of relations. In the

clusters, firms undertake only a small and specialized part of the whole production process. Thus for the whole product to take shape, many firms come together and complement one-another's activities. In such a cluster, inter-firm relations become the key to the success of SFCs. These relations are based on a combination of both competition and co-operation.

The co-operative practices can be among producers (horizontal co-operation) or among producers and their suppliers/subcontractors (vertical co-operation). Literature suggests that co-operation is possible due to trust among entrepreneurs and due to institutions specific to the cluster. The present thesis makes an attempt to study the nature of trust and institutions in SFCs and Chapter 1 of the thesis presents the significance of the problem.

In Chapter 2 the existing ID and SFC literature is reviewed with the aim to get insight into the nature of trust and institutions. The existing literature has stressed the features like religion, region, family, language, ethnicity, caste, party affiliation etc. as the basis of trust and institutions. However making use of such a narrowly defined base to explain trust has been questioned within the literature. The present work too found evidence (from existing descriptive studies) of more broad based identities leading to trust, like master-apprentice relations, long-term relationships, friendship ties, etc. Thus the basic question that this thesis poses is 'what can be the nature of trust and institutions in SFCs.'

The literature on trust that has developed independently of IDs and SFCs has been reviewed and is discussed in Chapter 3. The literature on trust is vast and has been a subject matter of many disciplines that are not always in agreement. However in this work the concern has been to study trust literature so as to inform ID and SFC literature.

Research on trust suggests that there can be many routes to trust and three of them seem important in the context of IDs and SFCs. The first is characteristics based trust, that is trust that arises due to social similarity like family ties, ethnicity etc, then trust can be based on knowledge, that is trusting the other party because of having worked with each other and knowing well, trust can also be based on institutions, that is formal societal structures like banks, currency system, etc. The existing ID and SFC literature has seen it predominantly in terms of characteristics bases. The main concern of this study has been to examine if trust could be based on knowledge and institutions?

Chapter 4 deals with the methodological issues of the study. The study is qualitative in nature. Within qualitative methods the study is case based. Trust is a phenomenon that is very difficult to separate from the context in which it is happening, where researcher has little control over the behavior of the entrepreneurs and it is a contemporary phenomenon. Such questions are seen suitable for case study method. Hence the choice of the method has been dictated by the nature of questions of the research.

The case is the Kanpur saddlery cluster. A saddle is a small seat placed at the back of the horse to provide the rider with control and security while riding. Saddlery range consists of many other accessories, apart from the saddle and in all it contains more than 300 different types of products. This entire range is made in Kanpur with elaborate division of labor within and among firms. Data on trust and co-operation has been collected through 40 interviews. The sources of data have been semi-structured interviews, institutional reports and trade publications. However reports and other publications provide only the background information. All the data on trust and co-operation come through semi-structured interviews only. Still care has been taken to take

into account multiple viewpoints like that of exporters, suppliers and people working in institutions

In Chapter 5 the data has been reported. This chapter contains information about both, the background of the cluster and the data on trust and co-operation. The saddlery making firms are small and are located within one city, Kanpur. This cluster also has an extensive network of suppliers within the city. Then there are certain institutions that work either for the leather making cluster in general or specifically for the saddlery cluster. The cluster is unique in the sense that saddlery is made only in Kanpur in India. Also it is produced for export, primarily to the USA and Europe and has very little domestic market.

Exporters and suppliers reported their ties to be trust based and across communities. According to them trust developed gradually because of working together. Initial approach is marked by caution, for example exporters giving small orders to a new supplier and suppliers in turn not offering credit in a similar situation. It is through repeated and favorable interactions that trust develops. Third party referral is taken to get information and, in this case too, trust develops only after sufficient interactions. Entrepreneurs report that previous favorable ties can lead to trust directly in a new situation too.

Certain collective action like beginning of a labor-training institute, introduction of new machinery etc. has been possible in the cluster due to involvement of an agency (working under United Nations Development Program, UNDP), National Leather Development Program (NLDP) and an active group of small exporters. Also through the data this study

found that norms, and not previous personal experience, are playing an important role in this cluster for certain co-operative behavior like issue of labor advances, cluster wide adjustment in times of crisis etc

In Chapter 6, the findings of the study are discussed in the context of the existing literature on IDs and SFCs. This study provides a point of departure from existing ID and SFC literature as it documents evidence for trust based ties across communities that is based on knowledge. The process through which knowledge based trust develops is in agreement with the previous expectations provided by the trust literature but some variations are found and have been discussed in this chapter.

In this study, it was also found that apart from business associations, involvement of an international agency and an active group of entrepreneurs could be an alternate route to collective action through formal institutions. But through this route collective action has been possible where an agreement of large number of entrepreneurs is not required for the action to be taken. This research also demonstrates that the issue of norms is important for co-operation (as many practices of co-operation are based on norms) in ID and SFC literature but it is under-researched.

Chapter 7 is concerned with the conclusions of the study. This research has tried to demonstrate that apart from characteristics based ties, trust in SFCs can be knowledge based. Knowledge based trust can develop through interaction. In SFCs, collective action can be through interaction among international institutions and small number of active entrepreneurs and the issue of norms needs to be researched further in SFCs. Limitations of the study and directions for future research too have been discussed in this chapter.

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*Dedicated to:*

*To My Father, Mr. M. M. Dwivedi*



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## LIST OF ABBREVIATIONS

AICTE	All India Council for Technical Education
CLE	Council for Leather Exports
CLRI	Central Leather Research Institute
E1, E2	Exprter1, Exporter2
HBTI	Harcourt Butler Technology Institute
ID	Industrial Districts
IIT-Kanpur	Indian Institute of Technology, Kanpur
JW	Job Worker
LD	Leather Dealer
LS	Leather Supplier
MFE	Manager of an Exporting Firm
MFL	Manager of a Leather Tanning Firm
MI1, M2	Member of an Institution
MS	Metal Supplier
NLDP	National Leather Development Program
SFC	Small Firm Cluster
SPOGA	A Trade Fair in Germany by name of SPOGA
TS	Textile Supplier
UNDP	United Nations Leather Development Program
UP	Uttar Pradesh

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# CHAPTER 1

## INTRODUCTION

Trust and co-operation are important in industrial districts (IDs) and small firm clusters (SFCs), because through specialization and subcontracting, small firms depend on one-another for making a complete product. In such a decentralized production system inter-firm ties become key to the well functioning of a region as a whole. These ties are marked by both, elements of competition and co-operation. Inter-firm co-operation and trust have been predominantly explained in the existing ID/SFC literature in terms of social similarity. The present research explores the nature of trust in inter-firm relations in a small firm cluster (SFC) and the possibility of these ties having a wider base than social similarity.

### 1.1 SIGNIFICANCE OF THE STUDY

The impetus to study small firms has come from the success of Italian IDs. Research in the 1980s demonstrated that robustness of many of the Italian regions like Prato, Emilia Romagna, and Sassuolo is due to prosperity of small firms (Sengenberger and Pyke, 1992). Further research pointed out that IDs are not unique to Italy and they are found in many other parts of Europe (Germany, Denmark, France, etc.), a few places

in the USA, and in many of the developing nations as well (Nadvi and Schmitz, 1998, Perrow, 1992, Sabel, 1992)

Small firms in a cluster can be economically viable and may provide an engaging work environment too. These firms are less hierarchical and have only a few grades for employees within firm. Standardization is not a hallmark of markets that small firms serve, thus work may not be repetitive in nature. Chances of starting business and acquiring ownership status are also associated with small firm working environment. They may lead to more equal distribution of income in a society than the one dominated by a few large firms, as resources in the first case will be spread more evenly over greater number of people (Perrow, 1992)

IDs are known for their ability to undertake 'high road' to employment where there are adequate numbers of jobs with good wages for a skilled labor force (Holmstrom, 1997, Sengenberger and Pyke, 1992). For the products where demand is 'volatile, differentiated, quality conscious and fashion conscious,' small firms are performing well because of having flexible technologies instead of dedicated ones. The advent of CNC and CAD machines has further aided in adapting to changing demands of consumers, and there is a scope for continuous product improvement and innovation in IDs (Pyke, 1992)

Thus IDs/SFCs can play an important role in an economy through their success, by providing an engaging work environment for many with decent wages and catering effectively to fast changing customer preferences. Given their potential for economic development they constitute an important area of enquiry. However the experience of

small firms, where they have been working on a stand-alone basis, has not been very encouraging and this is true of India too (Holmstrom, 1997) Thus inter-firm ties assume an important role in case of SFCs These ties are marked by trust and co-operation and the study of these ties becomes all the more important as the existing literature looks at it from a narrow perspective

### *1.1.1 Explanations for Trust and Co-operation*

The existing literature has stressed features like religion, region, family, language, ethnicity, caste, party affiliation, etc as the basis of inter-firm trust and co-operation in IDs and SFCs Institutions like business associations, consortia and specialized institutions are said to lead to trust and co-operation, but they are again seen as having a homogenous membership base These explanations are similar to the concept of characteristic based trust

But every region, where SFCs are located, may not be endowed with the kind of social similarities that have been discussed above If trust and co-operation could not arise apart from common characteristics, then the lessons and learning from IDs and SFCs have only a limited significance, as they cannot be applied to other regions However, trust literature identifies other routes to trust that are not so narrowly defined Trust can be based on knowledge and institutions Knowledge based trust arises because of having worked with the other party and knowing each other sufficiently well Institutions, the formal societal structures, like banks, currency systems, courts and law of the land, etc , can also lead to trust In the context of producer-supplier relations in entrepreneurial firms, researches have shown that



knowledge can play an important role in fostering trust ties. A few studies on the IDs and SFCs point out that trust and co-operation have been possible in cases even when members of institutions possess different identities. Thus the objective of the present study is to inquire if trust and co-operation can be based on knowledge and institutions in SFCs.

## 1.2 RESEARCH QUESTIONS

For the present study, the following research questions have been identified

- 1 Are there other routes to trust amongst entrepreneurs in SFCs apart from common characteristics?
- 2 Can trust amongst entrepreneurs in SFCs be knowledge based?
- 3 What are the processes that lead to knowledge based trust in SFCs?
- 4 What role do institutions play in fostering trust and co-operation in SFCs?

## 1.3 PLAN OF THE THESIS

In Chapter 2, the existing ID and SFC literature is reviewed with the aim to get insight into the nature of trust and co-operation in inter-firm ties. Based on this review the gaps in the literature have been identified and research objectives stated.

The literature on trust that has developed independently of ID/SFC studies is discussed in Chapter 3. This literature is vast and has been a subject matter of many disciplines that are not always in agreement. However, in this research the concern is to explore the trust literature in order to comprehend the issue specifically in the context of IDs and SFCs. Previous studies on trust suggest that there can be many

routes to trust formation and three of them, characteristics, knowledge and institutions seem to be important in explaining trust in IDs and SFCs. Based on the understanding of trust literature, research questions for the present work have been finalized in this chapter.

Chapter 4 deals with the methodological issues of the study. The study is qualitative in nature and within qualitative methods, it is case based. The case taken up is Saddlery Manufacturing Cluster at Kanpur, India. The choice of the method has been dictated by the nature of research questions. The criteria for selecting the case, issues related to data collection and analysis are discussed in this chapter.

In Chapter 5, data that pertains to the background of the Kanpur saddlery cluster is reported. The background information is related to geographical concentration of firms, size of the firms, nature of the product, foreign buyers, labor force, specialized institutions, etc. The data related to the nature of trust ties, co-operative practices, and role of institutions is discussed in Chapter 6.

In Chapter 7, the findings of the study are discussed in the context of the existing literature on IDs and SFCs. Findings and discussion are related to the nature of trust ties, issue of norms and nature of institutions that can lead to co-operative practices in the SFCs. Conclusions of the study are drawn in Chapter 8. Limitations of the study and directions for future research are also discussed in this chapter.

## **CHAPTER 2**

### **CO-OPERATION AND TRUST IN IDs AND SFCs: A REVIEW**

#### **2.1 INTRODUCTION**

The importance of small firms is being increasingly realized and they are in vogue, in the developed and the developing countries alike. If large firms cannot provide jobs, or if they are too inflexible to supply and cater to new markets, then small firms can try and provide the same. Technological developments like CNC, CAD and CAM are said to have favored the production of small runs, which suit these firms (Holmstrom, 1998). Tasks are likely to be non-specialized in small firms and hence reduce the separation between conception and execution of the products, making the work more interesting. Effort is more directly related to rewards and there are chances of ownership status for an employee (Perrow, 1992).

The most celebrated examples of IDs come from Italy. Concentrated in the central and north-east Italy, they have attracted a lot of research. Some of the famous Italian IDs are concentrated in Emilia-Romagna and Prato districts. Panizzia (1998) provides a list of Italian clusters in select industries by region. The regions are involved in production of textiles (Cossato, Piedmont, Prato, Tuscany, Sant Egidio, Val Vibrata,

Abruzzo, etc ), footwear leather shoes (Vigevano, Lombardy, Sant' Elpidio, Marche, Casarano, etc ), tanning (Arzignano, Veneto, Santacroce, Tuscany, Solofra, Campania, etc ), wood furniture (Bassano del, Grappa, Veneto, Marche etc ) and many other industries Brusco provide a list of few other IDs in Italy

There are many possible examples of these industrial districts knitwear in Modena, clothes and ceramic tiles in Modena and Reggio, cycles, motorcycles and shoes in Bologna, buttons in Piacenza, tomato canning and ham in Parma But it would be a mistake to think that this phenomenon is confined to the production of consumer goods Industrial districts are also common in engineering the production of automatic machinery and packaging machinery in Bologna of food processing machinery in Parma (Brusco, 1982 169-170)

In many other parts of Europe too, IDs are functioning successfully In several industries, like, textiles, machine tools, shoes, furniture, woodworking, ceramics, robotics and electronics, small firms from Denmark, Germany, Spain and Japan, among others, are performing well in the world markets (Benton 1992, Brusco, 1982, Kristensen, 1992, Powell, 1996) Perrow (1992) describes the presence of small firm networks in many industries of countries like Denmark, Germany, France and Sweden besides Italy

In developing countries, clustering among firms is wide spread Here small firms show some but not all of the characteristics of IDs Geographical and sectoral concentration can be taken as a basic building block for understanding the nature of such places and the rest of the features may be subject to empirical inquiry Following Nadvi and Schmitz, to distinguish from IDs, the places that may not have other

features like high road to employment, innovative small firms, specialized institutions, etc shall be called Small Firm Clusters (SFCs) in this research Textiles, machine tools, shoe making, furniture, metallurgical machinery, foundries, electronics, diesel engines, locks, and brass work industries have small firm clusters in India, Brazil, Indonesia, Peru and Ghana (Nadvi & Schmitz, 1998)

In India, research has been conducted on Tirupur knitwear cluster (Bhattacharya, 1999, Swaminathan and Jeyranjan, 1999), art silk cluster in Surat (Menning, 1997), electrical and electronics cluster in Bangalore (Holmstrom, 1997, 1998), Rajsamand marble cluster and lorry building cluster in Tiruchengodu (Cadene, 1998), Agra shoe making cluster (Knorringa, 1996), textile printing industry of Jetpur (Dupont, 1998), Ludhiana's various clusters (Tewari, 1998), Palar Valley tannery cluster in Tamil Nadu (Kennedy, 1999), Morbi flooring tile cluster in Morbi, Gujarat (1998) and Ludhiana bicycle cluster (Kattuman, 1998) United Nations Industrial Development Organization (UNIDO), through its cluster development program, has studied and intervened in a few of Indian clusters It has documented the presence of 350 clusters within the country and has detailed information about Tirupur knitwear cluster, Jaipur textile hand printing cluster, food products cluster in Pune and pharmaceutical cluster of Ahmedabad (Clara et al , 1997)

In this chapter, we first take a look at the meaning and essential features of the IDs and SFCs The canonical districts are said to possess certain features and in section 2.2 we take up a discussion of them The decentralized structure of production in the IDs makes co-operation necessary among different units of a particular industry In

section 2.3 we document various forms of co-operation and trust found in IDs, through a review of the literature. We also review the reasons given in the existing literature, in section 2.4, for such co-operation and trust, and find that they have been predominantly explained in terms of cultural identities like language, region, religion, etc. In section 2.5, we cite examples from the ID/SFC literature itself where the identities that lead to trust and co-operation have a wider base. We consider this important because if only cultural identities are relevant then the ID model does not offer much scope for learning and improvement in other areas as cultural identities are difficult to alter. A wider basis for trust and co-operation can offer scope for learning in other regions too (Powell, 1996, Sabel, 1992, Sengenberger and Pyke, 1992).

## 2.2 INDUSTRIAL DISTRICTS

Though there are individual variations in the features of IDs in different regions, still certain core characteristics are associated with them. They have a particular type of economic and social organization and, in this section, an attempt is made to bring out those features. The concept itself can be traced back to Alfred Marshall

When an industry has thus chosen a locality for itself, it is likely to stay there long so great are the advantages which people following the same skilled trade get from near neighbourhood to one another. The mysteries of the trade become no mysteries, but are as it were in the air, and children learn many of them unconsciously. Good work is rightly appreciated, inventions and improvements in machinery, in process and the general organization of business have their merits promptly discussed. If one man starts a new idea, it is taken up by others and combined with suggestions of their own, and thus it

becomes the source of further new ideas. And presently subsidiary trades grow up in the neighbourhood, supplying it with implements and materials, organizing its traffic, and in many ways conducing to the economy of its material (Marshall 1920 225, as quoted in Holmstrom, 1998)

Perrow provides a very clear description of what small firm networks are. According to him they are comprised of firms that interact with each other for various reasons and are supported by an array of business service firms. The concept of a small firm network is very similar to that of IDs as it can be seen from the following description

Imagine breaking up the integrated firm into units with an average of 10 employees each. For example, instead of 2,000 employees in one firm, there would be 200 firms of 10 employees each. The firms are usually very small-say 10 people. They interact with one another, sharing information, equipment, personnel, and orders, even as they compete with one another. They are supplied by a smaller number of business service firms (business surveys, technical training, personnel administration, transport, research and development etc.) and financial service firms. The small firms are surrounded by an infrastructure that is essential for their survival. (1992 454-455)

Pyke also stresses the existence mostly small firms that are geographically close to one-another and belong to the same industrial sector. Relationships among these firms are marked by both competition and co-operation and various institutions provide support services to the cluster as a whole. In his own words

In the ideal case, such an industrial system could be described as being composed of (generally) independent small firms, organized on a local or regional basis, belonging to the same industrial sector (including all upstream and downstream activities), the individual firms tending to

specialize in a particular production phase, organized together, and with local institutions, through relationships of both competition and cooperation (1992: 2)

Becattini stresses the social character of IDs and defines them as

A socio-territorial entity which is characterized by the active presence of both a community of people and a population of firms in one naturally and historically bounded area (as quoted in Panizza, 1998: 669)

From the above descriptions, it can be seen that IDs are concentration of small firms that are geographically and sectorally clustered in a region. Firms do not produce the entire product in house. Many phases or processes are subcontracted, though the final assembly and delivery of the product might be the responsibility of a single firm. What is remarkable about this arrangement is co-operation and trust among producers themselves and with various subcontractors for business. There is competition among firms for final markets but clear areas of co-operation too exist. In many places, the small firms are innovative and operate in export markets. Specialized institutions provide certain services, both business and financial, to the firms in the region. Local government is said to play a facilitating role for these regions. In the next section, features associated with IDs are discussed in detail.

### *2.2.1 Geographical Concentration*

IDs are geographically concentrated areas comprising of various small firms engaged in inter-firm division of labor so that they can handle the entire range of activities required from manufacturing to marketing of the product. They include the final producers who assemble the product and sell it to the market, various stage firms



(which perform intermediate steps in production) to whom production of parts is subcontracted, producers of machinery and equipment, raw material suppliers, marketing firms, traders, etc. The district should, ideally, have all the upstream and downstream activities for making the final product (Nadvi and Schmitz, 1998). Sengenberger and Pyke note that

The networks of an industrial district belong to the *same industrial sector*, in the sense of containing all the upstream and downstream processes and services going towards the manufacture of a family of products (such as ceramic goods or knitted clothes). In an industrial district these networks tend to be locally related, i.e. an industrial district is *geographically bounded* (1992: 4, emphasis in original).

To take an example of geographical concentration, in Prato's garment district in Italy, the system had 15,000 to 20,000 firms, employing approximately 70,000 workers (excluding support services like transport, customs, banks, and independent textile mechanics that employed about another 20,000 persons), that sold yarns both in Italy and abroad (Jaikumar, 1986).

### ***2.2.2 Flexible Technologies***

Many of the markets to which small firms supply have fast changing consumer preferences. These markets have fragmented and a wide product range with continuous innovation is necessary to compete in it. Thus, dedicated machines are not suitable for production in IDs. Technology used is flexible so that quick and inexpensive shift from one product to another can be made (Piore and Sabel, 1984, Holmstrom, 1997). Sengenberger and Pyke note that

Flexibility is perhaps the characteristic which people most often associate with the individual district's advantages over the large centralized corporations. Often people refer to the combination of flexibility and specialised production units typical of industrial districts as "flexible specialisation" and contrast it to Fordism, the inflexible organisation of production on mass market lines, employing dedicated machines and specialised, often unskilled or semi-skilled workers (Sengenberger and Pyke, 1992: 5)

But the flexibility can be of two types, active or passive, the main difference being attitude towards labor. Holmstrom explains:

I have explained the two meanings of *flexibility*, sometimes distinguished as 'high road' and 'low road' flexibility, 'offensive' and 'defensive' flexibility, or 'active versatility' and 'passive pliability'. The difference mainly lies in the attitude towards labor (1998: 24, emphasis in original)

'High road' to flexibility can lead to quick responses to changing demands with corresponding benefits for the workforce too. But it can also happen in the form of 'low road' by accepting customer demands and passing almost all the burden on the workforce. In IDs, the flexibility is said to be 'high road' and active with engaging environment for the workers too (Nadvi and Schmitz, 1998, Sengenberger and Pyke, 1992).

### 2.2.3 Labor

Labor force in IDs is not just a cost to be minimized. IDs have embarked on the 'high road' of employment with well-paid and highly skilled workers on the payroll (Schmitz 1992, Sengenberger and Pyke, 1992). The hierarchy in such small

organizations is flat and mostly owners work side by side with workers on many operations. Many of the owners have worked their way up from within the ranks. Workers have a say in both conceptualization and execution of the product (Perrow, 1992). Pyke makes the following observations on the state of labor in IDs:

Cases from Denmark, Germany, Italy and Japan, for instance, could also be presented to demonstrate the importance of another feature which needs to be highlighted – namely a highly skilled labour force, capable of adjusting flexibly to new demands, and with a strong ethos – and opportunity – for constant upgrading of technical abilities. (S)uch skills can be learnt within local universities and technical schools – with courses specially adapted to the needs of local industry – and also informally, within firms and within families, passed on from father to son or mother to daughter, and from colleague to colleague (Pyke, 1992: 13).

Thus IDs are said to provide a challenging environment to work in with high standard of wages to its workforce. Industrial relations, particularly trade union negotiation with management are said to be less adversarial in IDs in many parts of Europe (Sengenberger and Pyke, 1992).

#### *2.2.4 Co-operative Ties*

An ID is not simply a conglomeration of essentially isolated, individually competitive firms that happened to be located together, with 'arms length' relationship. There is fierce competition among them for the market share, price, and quality but this does not deter co-operation among them. Co-operation can be vertical, among producers and their suppliers, and horizontally among producers themselves. Such co-operative acts can be undertaken because actors know and trust each other (Bagnasco, 1998,

Holmstrom 1998, Pyke, 1992, Sengenberger and Pyke, 1992) Another form of co-operation manifests itself through local institutions They are discussed in detail in the next section

### *2.2.5 Specialized Institutions*

Due to their small size, certain activities are not feasible for the small firms to take individually Specialized institutions, whether government owned or industry sponsored, provide such services as credit, managerial advice and support, accounting and audit, marketing, advertising and research and development, to the firms For example, the Italian 'real service center' CITER serves the textile clusters of Prato, Tuscany and Romagna The initiative started when the center found a few university professors who were willing and available to follow the market of the products The center informed the artisans about the various kind of yarn available and their current prices The center collected the information from various department stores and socio-demographic research companies, compiled and made it available to its clients However, their task is limited, and this is by choice, to collecting information and making it widely available To translate it to individual company decisions is left to the small firms (Brusco and Righi, 1989) There are many other specialized institutions in Emilia-Romagna ASTER acts as the technology development agency, CENTRO CERAMICO (Emilia-Romagna Ceramic Centre) provides services for the ceramic industry CERCAL is the footwear center, CERMET is the center for research, advice, test and analysis of metal materials, CESMA for agricultural machinery, DEMOCENTER, the center for diffusion of industrial automation, QUASCO, the center for the building industry (Bonaretti et al , 1997)

The other two prominent institutions are credit guarantee co-operatives and export co-operatives. Credit guarantee consortia are private, non-profit organizations created and managed by artisans, with the financial support of public institutions. Members pay a membership fee, which is integrated into a guarantee fund, together with other public contributions. A fee paid by the entrepreneurs as a percentage (less of 1%) on the credit guaranteed by the consortia helps in the growth of funds (Baldoni, 1997). According to Brusco and Righi, the success of the credit co-operative is due to its local nature.

The important fact is that the credit co-operative has available, at an extremely low cost, the means of evaluating the personal qualities of the loan applicant. The local CNA secretary has known the firms for years since he has kept all its account books. He is aware of the esteem, which the applicant enjoys among his colleagues because he has seen and heard him at various association assemblies. He may even know the personal and family situation of the applicant. At least one of the Board of Directors will be competent to give an informed opinion on the applicant's firm, its customers and suppliers, its equipment and machinery. But there is another important point which must not be forgotten. The fact that the guarantee is granted by his colleagues and is based on personal esteem, has a very important effect on the receiver of the loan. The saying goes- "the person who receives a loan from the co-operative will stay up at the night thinking up of the ways of repaying his loan. Whereas, the person who receives a bank loan will stay awake at night thinking up ways of NOT paying back his loans" (Brusco and Righi, 1989: 413, emphasis in original).

In general, the export consortium's task is to promote the member firms' goods and services abroad and to facilitate the export of these goods and services. They vary in

terms of services that they provide, from market information collection, credit guarantee, merchandising, franchising, to sales using the consortium's brand name (Baldoni, 1997)

### ***2.2.6 Role of Government***

Government, particularly the regional and state, can play an important role in the promotion of IDs. They may provide cheap land, other basic infrastructure, training and R&D centers and loans to the district. Through the industrial policy, the national government can come to the aid of these districts (Benton, 1992, Brusco, 1982, Schmitz, 1992, Sengenberger and Pyke, 1992). In Italy the industrial districts have seen active interventions of local government where in one case they ensured only surface rights to the owners of the land. The owners could not sell the land acquired in such estates for sixty years, thus, severely discouraging speculative purchases (Brusco and Righi 1989)

To sum up, the common characteristics discussed in this section have been associated with canonical IDs, particularly in Italy. But there are individual differences among IDs and SFCs in different regions and they may possess only a few of the features mentioned here. Still the stylized model helps in understanding the essential nature of IDs.

## **2.3 INTER-FIRM CO-OPERATION**

For a decentralized system like IDs/SFCs to work, co-operation and trust have been considered an essential feature (Bagnasco, 1998, Holmstrom, 1998, Pyke, 1992,

Sabel, 1992, Tiggila, 1992) Paniccia highlights the importance of trust and co-operation in IDs by defining them in the following words

In what may be regarded as a common definition, industrial districts are taken as forms of organization governed by trust and co-operation (1998 667)

Stressing the role of co-operation in IDs, Ottati (1991) argues that if such a model of economic organization is to function, the social context in which specialized firms are embedded should be one in which cooperation has long been customary and where the custom has been extended to economic relations too Co-operation can be between producers and their suppliers, vertically or horizontally among producers themselves Horizontal co-operation also happens through specialized institutions

### **2.3.1 Vertical Co-operation**

Producers in IDs/SFCs realize that decentralized production allows them faster response time, greater specialization and avoidance of large investments in machinery, which cannot be utilized effectively at the level of a single firm (Sabel, 1992) Vertical co-operation is with firms up and down in the production chain, like sub-contractors, machine-makers, suppliers of raw materials, export agents, final customers, etc (Bagnasco, 1998, Nadvi and Schmitz, 1998, Sengenberger and Pyke, 1992) Specialization reduces the need to invest in all the aspects of the production processes that anyway is beyond the capacity of a small firm Reliance is placed on personal, close ties and trust Instances of such co-operation are widely documented In the case of Prato district, coordinators called *impannatore* achieve vertical co-operation as he

purchases the raw materials, allocates the orders and gives instructions independently of anyone else to various specialist local subcontractors. Communication among the entire chain of firms and between the *impannatore* and his suppliers is ensured by both informal communication and by codified or 'embedded' instructions contained in the way semi-finished goods are supplied. (Paniccia, 1998: 683, emphasis in original)

The firms from Baden-Württemberg's machine tool industry have performed well in the world market by producing specialized machinery as per specifications of their customers. Co-operation among machine tool makers is seen central to the success where greater reliance on subcontractors disperses the cost of innovation throughout the regional economy. The machinery producers cultivate a group of suppliers with which it works intimately, providing manufacturing expertise and collaborating on production of single parts and sub-assemblies. Many firms even help their suppliers purchase the equipment they will need to produce a given part, usually by guaranteeing a certain amount of orders so that the supplier firm can get the capital it needs from the local bank. Many firms, concludes Schmitz, essentially tie their own existence to a network of suppliers (Schmitz, 1992).

Denmark is host to two successful industrial districts for knitwear and furniture. This cluster is spread over two counties of Herning-Ikast. The knitwear cluster is dominated by 'small, locally owned firms'. There is only one firm in the region that employs between 200 and 299 people. Around 59% of the firms are of employee size of less than 6. In the districts, firms are able to make use of a decentralized structure of small, specialized firms to respond flexibly to new fashions and technical



specifications. The work is divided along specialized spinning mills, weaving mills, dye works, textile printers, suppliers of buttons, etc (Kristensen, 1992)

In Spain, wood furniture industry is clustered around periphery of Barcelona in a place called Valles Oriental and it is characterized by very small firms, with an average of only eight workers per firm. Within the region, firms are grouped according to product specialization. Vertical subcontracting relations are common, with firms that specialize in design and assembly subcontracting various phases of production to smaller specialty workshops (Benton, 1992)

Cadene describes vertical relations in Lorry building cluster in Tiruchengodu, Tamil Nadu, India

Lorry building is divided into different stages, which are executed by a chain of very small entrepreneurs each working with a crew of a few workers. It takes about two weeks, and more than 10 small enterprises, to build a complete lorry, from the manufacture of the cabin, to the platform on which the load is placed. The workshop owner thus appears above all as the coordinator of a large number of small artisans, called contractors, with whom he enters into very personal relations and who are themselves involved in similar relations with their workers. Many belong to the Asari caste, but they represent all the castes of the surrounding villages (1998: 151)

Vertical co-operative relations have been discussed in variety of other clusters too. In Taiwan's footwear industry, small firms do not perform more than two sub-processes in-house. Extensive specialization and vertical inter-firm linkages mark the relationships in footwear clusters in Brazil and India (Nadvi and Schmitz, 1998). In

the light engineering sector of Ludhiana, the success is attributed to various job working firms specializing in key production processes (Tewari, 1998) In Tiruppur's knitwear cluster various firms work on clothe fabrication, calendaring, bleaching finishing, etc (Swaminathan and Jeyarajan, 1999)

### ***2.3.2 Horizontal Co-operation***

Horizontal co-operation is among firms making similar or complementary products Such firms share large orders, which is out of their individual capacity Cases from Italy provide compelling evidence for co-operation that involves, but is not limited to, dividing up of orders, developing a combined range of a product, combining to train the labor instead of labor poaching, lending of tools, helping out with spare parts, passing on of advice, assistance in emergencies etc (Bagnasco, 1998, Sengenberger and Pyke, 1992, Trigilia, 1992)

Horizontal co-operation can also happen formally through business associations or other specialized institutes These forums may induce producers to share information about latest developments in their markets and to look for solutions collectively in the problems of the cluster

For example, in engineering and metal manufacturing sector of Sakaki, Japan, in order to expand business, a firm bids for work that it may not have the capacity or technical ability to produce By relying on the neighbor firms, the bidding company can confidently accept the order If meeting a deadline is a problem the firm can satisfy its contractual obligations by borrowing a neighbor's lathe or mill (Friedman, 1988) In Denmark's knitwear cluster, firms have collectively provided services to promote

exports, made collective travel arrangements for exhibitions and 11 firms formed a joint export company. In the furniture cluster a few firms work on joint design for furniture and may work together for months on it (Kristensen, 1992).

In Germany's machinery industry, the employers' association - VMDA, encouraged producers to arrange their product palettes so that they did not compete with other members of the group. Also, they provide for the whole cluster services like market information, statistics and legal counseling, among others (Schmitz, 1992). For ceramic cluster in Spain the horizontal ties have played a prominent role

They have often done so, moreover, through co-operative efforts sponsored by the sector's employers' association. Efforts to modernise production were intensified and have led to improvements that have supported the industry's bid to manufacture higher value added goods. Co-operative initiatives have been successful, for example, in improving processes for raw material preparation (clay atomisation or glaze production). The employers' association has also sponsored efforts to foment auxiliary industry to produce machinery locally, although less successful, (Benton, 1992: 71)

In developing countries, business associations have a mixed record of success. Mexican footwear association 'Camara del Calzado' assists members through consulting services, managerial training, organization of trade fair, etc. It was also successful in setting up of credit unions for joint purchase of machinery. In Bangalore's engineering and electronics cluster Holmstrom (1998) finds that only a few attempts succeeded at horizontal co-operation. In Peru's Trujillo footwear cluster business associations have a mixed record of success. Nadvi (1999) has researched the

functioning of business associations in two clusters, shoe making cluster in Brazil's Sinos Valley and Sialkot surgical instrument cluster in Pakistan. In Sialkot, the association was successful in its attempt to upgrade the cluster, through collective response, after buyers in the USA wanted more rigorous quality assurance. In Brazil, the shoemakers crafted their response to the threat of Chinese competition through their business associations so that they could succeed in moving higher in the value chain.

From the discussion in section 2.3 it can be seen inter-firm division of labor among firms is found across many regions, both in developed and developing countries. Inter-firm ties work smoothly because of close personal ties among producers and subcontractors as demonstrated by the examples of Prato garment district, Baden-Wurttemberg's machine tool industry and Lorry Building cluster in Tamil Nadu, India. Producers co-operate among themselves by sharing information, tools and orders with each other (various Italian regions, Denmark's knitwear cluster, etc.). For solving common problems of the ID/SFC, entrepreneurs act collectively (VMDA, Germany, business associations in Italy) through business associations or by forming groups, like crediting societies and exporting consortia. Thus, trust and co-operation is central to the well functioning of IDs/SFCs and in the next section we turn our attention to the reasons given trust and co-operation in the existing ID/SFC literature.

## 2.4 PREDOMINANT EXPLANATIONS OF TRUST AND CO-OPERATION IN ID AND SFC LITERATURE

Trust and co-operation are said to be central to the success of the SFCs, but often they have been taken for granted and treated only implicitly in the literature. In many of the studies only a description of co-operative practices is given. For example, studies by Benton (1992), Gorter (1998), Kattuman (1998), Loop (1998) and Tewari (1998) have extensively discussed various practices of trust and co-operation in IDs/SFCs, yet why do entrepreneurs trust each other is not clear.

Many studies find that trust and co-operation originate from the particular culture to which the entrepreneurs of the region belong. Factors like caste, region, ethnicity, religion etc. are the axis that are said to provide people a common identity and work ethos and lead to a 'non-confrontational social spirit and trust'. Lack of opportunism is ascribed to local customs and history where such behavior is rooted in a language well understood by everyone, thus mitigating fraud and providing a trusting environment (Gianovetter, 1995, Nadvi & Schmitz, 1998, Paci, 1991). Sengenberger and Pyke make a note of this argument in following words:

Trust can be based on various catalytic institutions: kinship, ethnicity, political or religious affiliation and collective agreement be it formalised or informalised. The frequently heard argument that the successful industrial districts cannot be reproduced elsewhere because they are rooted in a specific culture. (1992: 20)

Ottati (1991) in his research on Italian IDs, emphasizes the importance of culture and a predisposition of various firms towards co-operation. According to him the 'relative stable aggregation' of business units in the same area implies that they are of roughly the same social environment where they probably possess a common culture (language, meanings, value, etc.). A few researchers (Bagnasco, 1998, Fua, 1991, Lazerson, 1988, Ritanie, 1992) have also stressed the role of wider family ties for trust and co-operation as through these ties, family members can work together, share information with each other and provide for financial support.

Brusco (1992) points out various forms of co-operation present in Italian districts, like sharing orders, formation of consortia, etc. When it comes to explaining such co-operation, he dismisses the narrow economic explanation because according to him, it 'tends to impoverish the overall picture rather than making it easier to grasp'. But his own explanation assumes the presence of co-operation among firms in IDs by concluding that there is a particular way of doing things in the Italian IDs, hence, these places are unique and different from others. In his own words

In any case (t)he expertise and the social mobility mentioned earlier combine to give the area a character that sets it apart from other areas and surrounding region. Referring to these characteristics, Becattini has defined the districts in the terms of a sense of belonging that distinguishes "us" from "the others" (1992: 183)

For explaining ties of trust and co-operation in Italian IDs, Bagnasco too discards explanations in terms of economic opportunism.

It may seem surprising that this consensus-the acceptance of the market and the social conditions for it- was found not only in the areas

where the culture is strongly catholic, but in the areas where it is left-wing. Explanations in terms of opportunism, are not convincing. The real explanation lies in a particular kind of ideology which developed out of the values and practices of independent craftsmen and peasants. The development of a decentralized economy was generally seen as a collective enterprise with benefits for the whole population, something which grew out of the community itself, without heavy social costs and with rewards for everyone who worked hard (1998: 54).

Though Bagnasco, as it can be seen from the above, finds catholic, communist and values of craftsmen important for developing trust, again the process seems to be automatic, growing out of the community by itself. Lazerson, while discussing the case of Modena mechanical engineering firms, concludes

Analysis of social formation must also consider those particular national structures that encourage cooperation and solidarity, values that are not equally distributed or and nurtured across national boundaries. In my research in Modena, these institutions included the local administration, the Communist party, and the CNA. But in the Veneto region north of Emilia Romagna, they also included the Christian Democratic party. (1988: 340)

Trigilia too (1992) links the cooperation prevalent in Italian IDs to “a catholic tradition and a socialist and communist movement”. Inzerilli (1990) explains the ‘Italian model’ through attitudes of collective solidarity that tends to form because of common membership of a political party. In his research on Prato, Ritanie (1990) finds that ‘business is concluded among members of allied family, or among parties to long lasting relations’ who are submerged in a “red” political culture. Also discussing

the general principles of organization in IDs, Pyke explains them in terms of catholic tradition or communist ideology

The importance of common values in promoting sectoral development has been particularly highlighted in the case of Italian small-firm industries in the industrial districts of the North and North-East, where the role of Catholic church is said to have been particularly significant in the “white” areas and the communist party in the “red” areas (1992 9)

Thus, explanation for trust and co-operation in Italian IDs, as it can be seen from the above discussion, is given mostly in terms of a common culture, stressing ties of religion, common language or belonging to same political party These identities seem to provide automatically for trust ties by defining a way of doing things in a certain manner These ‘cultural’ arguments are not limited to Italy only and in the next section, examples from other countries are discussed

Relational contracting in Japan is common among large and small firms alike It can be among the giant automakers and their subcontractors or between a small weaver and his converter These relations are seen as 'moralized trading relationships of mutual goodwill' specific to the Japanese people Here again, the presence of such solidarity is seen in cultural terms, reliance on factors like 'national character' (Dore, 1983) Another example is the Mondragon complex in Spain that encompasses 173 workers' owned co-operatives and employs workers from the town of Mondragon in the Basque region The co-operatives export about 30 per cent of their production and have over 190 existing product lines Benton (1992) notes that



most observers have argued that Basque nationalism has played an important role in the co-operatives' success, this claim suggests that the applicability of the Mondragon model in other regions in Spain is very limited (1992 74-75)

Nadvi and Schmitz in their literature review of clusters in developing countries discuss many clusters that share cultural identity. The cultural identity is supposed to provide common values of hard work, saving, family as a central institution, etc. and hence leading to trust and co-operation.

The rattan furniture cluster of Tegalwangi, Indonesia was distinguished by social networks where 'neighbours are related by ties of kinship' (Smyth 1991). In Sinos Valley in Brazil, a strong community spirit developed based on a common German heritage (Schmitz 1993: 26). Rafaela in Argentina was largely settled by southern European immigrants (Qunitar *et al.*). Entrepreneurs and workers in Trujillo's El Porvenir footwear cluster shared common origins (from one of Peru's poorer, densely populated and economically backward agricultural regions) and were further bonded together by a long collective struggle for land rights as rural migrants (Tavara 1993, Villaran 1993). Wilson (1992) reports that social networks in the rural Mexican clusters were shaped around male migrants, who shared a strong social bonding as a result of common experience of the struggles of life as migrant workers in the US. Cyprus' consensual and corporatist ethos, which permeated commercial relations between small firms and their ties to the state and financial sectors, drew strength from a shared fear of a perceived external threat (from Turkey) resulting in 'strong civic and national cohesion' based upon a national self-identity of being Greek and Christian. In South Asia caste and ethnic identities were important

criteria in delineating social groups in small firm clusters. In the Indian diamond polishing industry of Surat workers and entrepreneurs came from the same caste (Patels). Amongst small-firm clusters observed in Pakistan, almost 90 per cent of entrepreneurs sampled in the cotton weaving sector and a significant proportion of entrepreneurs and workers in other textile related industries were Ansaris, the traditional Muslim rural artisanal caste (more appropriately *biradari* or fraternity) of weavers. Similarly, *Lohars*, the ironsmiths *biradari*, accounted for a substantial number of those in the metalworking sectors. In Sialkot's sports goods manufacturing cluster, Weiss (1991) reports that small units are organized around family-based social kin networks (1998: 97-98).

In Indian networks too, caste based identity is said to have played a crucial role in fostering trust and co-operation. In the lorry-building cluster of Tamil Nadu, Asari community dominates the trade and brings about solidarity in the cluster based on family ties of blood and kinship (Cadene, 1998). On the other hand where trust ties do not form in a cluster, it is again attributed to clash of identity. In Agra shoe cluster, Knorringa (1996) reported that because of belonging to different caste, there was distrust among various actors. In Surat's art silk cluster, Menning (1997) describes trust relations in terms of extended family, caste and religion. According to him

Thus the family firm, kindred, caste and religious group continue to be significant for the patterning of personalized business relations in the city (1997: 69).

Yet he notes that the production is quite decentralized with particular communities dominating a particular phase and co-operation prevails in such a situation too. But

apart from this brief mention quoted below, most of the study proceeds to analyze trust in terms of kinship and caste based ties

The closest contacts are frequently among members of the same kin groups, castes and religious communities, but the decentralized nature of the business and the concentration of certain groups in particular niches in the production and marketing sequence makes cooperation among business people of different cultural background a necessity as well (Menning, 1997 67)

In Jetpur textile industry, people from two different castes dominate main business and ancillary activities and they are said to be antagonistic to each other. The study gives the following description of the cluster

A basic line of fragmentation among Jetpur entrepreneurs follows caste membership. At its beginning this industry was promoted by local entrepreneurs, *Khatris* by caste, for whom dyeing and printing and printing industry is an ancestral activity. The bright economic prospects of this industry then attracted many entrepreneurs, who did not necessarily belong to the traditional community of craftsmen. Amongst the newcomers were *Vaniyas*, traditional caste cluster of Gujarati traders, and *Kanbis* (also locally called Patels), traditionally cultivators. Yet, *Khatris* are still the largest single group among entrepreneurs running proper factories (44 per cent), while *Kanbis* dominate the ancillary establishments (Dupont, 1998 316-317)

It would have been interesting to note how the two groups managed the business relations as they operate in different phases of production, where in all probability they need to work with each other. For instance, it would have been helpful to know if the business terms and practices differed when the two groups interacted or do

relationships develop with them for the purpose of the business as found in the art silk cluster of Surat mentioned before. But Dupont notes this antagonism in general terms by saying that 'certain *Khatri* entrepreneurs would denigrate the *Kanbis* on the ground of their agricultural background' but fails to take into account its manifestations for business practices

Tirupur is a successful knitwear cluster in Tamil Nadu, India. It accounts for 14% of the <sup>knitwear</sup> export from the country and ranks only behind Delhi and Mumbai. Swaminathan and Jeyarajan describe the business relations in the cluster

As of now, the industry is dominated by two major communities-the Kudiyanava *Gounders* and the Senguntha Mudaliars. There are underlying tensions between the two communities, however, particularly in the matter of control of formal local institutions. But, so far, this antagonism has not been carried over into the work atmosphere (1999: 115)

The authors also note that members from other caste and region have been successfully accommodated in this cluster but they consider it a hindrance for building integration and co-operation in the cluster

Another interesting aspect about Tiruppur is the manner in which quite a few non-local entrepreneurs, particularly north Indians, have not only settled down, but have got absorbed into the Tiruppur ethos. The Tiruppur community, in this sense, is not a 'closed one', on the contrary, there is continuous in-migration of population into the district. This does bring about its own problems of social integration which are, as Becattini (1990: 400) points out, *ceteris paribus*, 'an increasing function of the cultural distance between the alien and the

native, and the power of the assimilation of the district' (1999 115-116, emphasis in original)

Doubts have been cast by a few studies on cultural similarity being the explanation, of trust based co-operation. While discussing the Bangalore cluster, Holmstrom (1998) writes that it is doubtful whether members of same caste or religion will trust automatically. Sengenberger and Pyke (1992) argue that trust can be based on kinship, ethnicity, political agreement or religious associations, but it can be found in other settings as well. Zeitlin (1992) stresses that Italian industrial districts have been deriving their competitive advantage from co-operation, trust and community, but merely because of these features they need not be regarded as 'unique historical artifacts'. Only common and exceptional culture need not bring about such a district. Summing up the cultural argument, though disagreeing with it, Sabel remarks

for reasons rooted in a common history – a belief in the same god, dedication to the same political ends, or a common ethnic or cultural heritage-the parties may come to see themselves as members of a community of fate whose implicit (and sometimes explicit) conditions of membership exclude exploitation of the economic vulnerabilities of their fellows. Neither circumstances, of course, justifies the hope that trust can be created where it is needed (Sabel, 1992: 216)

In our review of literature, we came across many studies that contain descriptions of trust and co-operative relations in IDs/SFCs that do not seem to correspond to the idea of narrowly defined cultural identities, like sharing common region, religion, language group or ethnic group. Researchers have described trust ties among

entrepreneurs that may not belong to same cultural group and we now turn our attention to a review of these studies in the next section

## **2.5 EVIDENCE FOR TRUST AND CO-OPERATION IN TIES WITH A WIDER ‘CULTURAL’ BASE**

The evidence for wider ties in cluster literature comes in two ways. As pointed out in the previous section, a few researchers cast doubts about the cultural identities being the dominant explanation of trust and co-operation where offered, while others have provided description of co-operative practices that are more diffused in nature and still can provide for trust and co-operation.

Benton (1992) has questioned the emphases on Basque regional identity as the pillar of trust relations and thus success of Mondragon Co-operative Complex. If this were the case, he argues, such examples offer little hope for other regions to learn from them. He reasons that the town has one-third members belonging to other regions and in same proportion the members of the co-operative come from outside. So Basque regionalism may not be playing as significant a role as attributed to it by many studies. Another way to look at it is that areas surrounding Mondragon are not so different in terms of culture, yet no similar co-operative success is to be seen. Thus the source of the success may lie in the way co-operatives and their institutions evolved and this trust can be stemming from the knowledge, which comes from working together (Benton, 1992).

In Denmark there are two clusters, one in Herring for knitting and another in Salling for furniture making, which display co-operation and trust based practices. For the co-operation and trust found in these settings, close family ties in conjunction with craft relations and ties with neighbors are said to play an important role. However, many of the new small firms can trace their lineage to a few large firms, and the genealogical tree is interwoven for past many years in the furniture. The evidence suggests that common experience in large firms and a wider range of relations of master and apprentice type can be an alternate route to trust (Kristensen, 1992). Similarly in Japan's Otta ward, there are many small firms clustering in machine tools and electronics industry. Here the search for new partners for business requires a mediator that both the firms can trust. At times this role has been played by family members but equally friends too can act as facilitators, only they must have knowledge about both the firms involved in a transaction (Whittaker, 1997).

In the state of Pennsylvania, craft pride has played a facilitating role for members and the tool and die industry has a sense of community where everyone is ready to learn from others. The same role has been played by membership to three large firms in the plastic industry (Sabel, 1992). Friendships that formed out of this bond have led to better co-operation among the small firms. One finds that in French cluster of small firms (making machine tools), if a particular supplier is doing new business with a firm, they get short-term deals only. If such deals turn out to be satisfactory, trust may develop and a larger volume of business will go to the firm. Manufacturers say that this process can take anywhere between one to three years (Lorenz, 1993). The relationships form around suppliers and sub-contractors in Sinos valley in Brazil and

this is a shift from the earlier socio-cultural identity based co-operation (Nadvi & Schmitz, 1998)

Even for the Italian industrial districts, where culture argument has been put forth with some regularity, Bagnasco (1998) points out that two friends can come together and start their own business (apart from the usual ties of extended family) so can a manager with the blessings of his boss. According to him, trust can build up by repeated contacts, and can get cemented by friendship and acquaintance. Sample designs and price information is freely discussed between producers and their artisans in the Modena knitwear cluster in Italy. Any adjustments in initial terms and conditions of the work agreement are made quickly and in a mutually satisfactory way. Such co-operation is based on trust among people in this industry. But trust develops in relationships through repeated transactions. Over 80 percent of manufacturers and artisans report that the above features are of those ties which are more than five years old and form only after they have conducted business with each other for a long time (Lazerson, 1995).

Indian small firm clusters are said to be operating according to ethnic and cultural ties. Here, often failure for trust ties to emerge is attributed to caste and/or community based division. However, a closer look at the literature points out that this may not be always the case. In Vellore's construction industry, retail trade of steel is concentrated in relatively small industrial area. The land belongs to a nearby mosque and there are Muslim steel shops, while Hindus own other shops that sell timber, tiles, etc. Yet these two communities co-exist in peace and do business (Loop, 1998). In Punjab's metal



working cluster, skilled workers, known as Ramgharias, have co-operated with traders who have capital and knowledge, but do not belong to the same caste (Tewari, 1998)

Next we sought support from secondary literature for institutions that have members from divergent backgrounds and yet manage to co-operate, though not necessarily share ethnic, region, or religious similarity. Vapi in India is a small town with heavy concentration of chemical and engineering industries. Many co-operative practices have manifested themselves through a business association (Gorter, 1998). The association has worked primarily for political networking. Here in the early phase of the development, the cluster was dominated by a caste called *Bania*, but these days the ties of co-operation are hardly drawn along those lines. The sector is no more dominated by a single caste. People from many other castes have entered. To quote Gorter

Common values are the basis of co-operation. They share a common identity which is not defined primarily in terms of caste, although caste plays a role. They see and present themselves first and foremost as an educated elite of small- and medium-scale industrialists who contribute to India's development by manufacturing and exporting quality products. It is in this role that they wish to be heard and reckoned with and not because they belong to certain castes. Admission to the informal network is open to all, Brahmins, *Banias* and *Suthais* alike, as long as they share a certain lifestyle and matching set of views and values (1998: 372-373).

Gorter (1998) concludes that in Vapi cluster development of identities around profession plays a more important role. People are now seen as rent-seekers or technocrats, and no more according to the caste they belong to. The business

association has mirrored this process of identity formation in the cluster. Thus, for co-operation, which comes through this association, caste ties have lost their primacy.

Holmstrom (1997) points out to another such process of trust formation. In India, in the district of Coimbatore, there are many small firms making domestic pumps. Since each had its own design, consumers found it difficult to find spare parts. On the suggestion of government sector bank, SBI, they came together and formed a consortium to jointly produce such pumps. Here the account does not discuss the process of this coming together in detail but it still suggests that at times government mediation can help bring the parties to sit and talk. In the process, the group may define certain common interest and norms, which can initiate and guide co-operation leading eventually to trust. He also finds that in Bangalore's electronic and machine tool cluster, trust has arisen due to friendships, which go back a long time, like attending the same college or working for a common large firm. It can also develop in business associations or clubs and does not have to have an ethnic foundation.

In Lehigh valley, the USA, apparel firms were strongly entrenched along old timers (Italian and Jews) and recent emigrants from Vietnam, Lebanon and Syria. The old timers were working under unionized shops and the new firms were considered to be sweatshops. The industry was facing tough competition from abroad and new flexible producers within. It was only after the start of the 'MAIN' program that new and co-operative practices could make an industry wide impact. In this effort the local government asked the members of the industry to suggest the areas where greater co-operation was feasible. Where members could not agree on their own, third party

consultants were brought in and field visits organized to get a better grasp of the situation. The MAIN project worked because it could bring the actors to a forum and make them talk. These attempts to study the industry together have brought co-operation to the region (Sabel, 1992).

To sum up, we found that close business ties can emerge in various ways even when entrepreneurs do not share a common cultural identity. Friendship ties, working together in large firm, long-term business ties all can lead to trust and co-operation. Further entrepreneurs have been able to take collective action successfully through business associations even when membership base is diffused, as shown by examples of Vapı and Lehigh clusters discussed above. But the existing IDs/SFCs literature explains inter-firm ties of trust and co-operation predominantly in terms of 'culture'. Based on the evidence presented in this section, we will like to argue that there exists a gap in the literature that needs careful examination. **Thus the objective of the present study is to inquire if trust and co-operation can be based on knowledge and institutions in SFCs?**

## 2.6 CONCLUSION

In this chapter we began with an outline of what IDs are and how SFCs differ from them. We then argued that for decentralized productions systems like IDs/SFCs, trust and co-operation assume a central role. However, in the literature related to ID/SFC most of the time it is seen as an outcome of cultural similarity, hence something that is given and cannot be altered easily. This leaves little room for learning for other regions that are not similarly endowed. Doubts have been cast by a few studies about

trust as something arising solely out of cultural identities. Our own position can be summed up as follows

- There are two striking features of co-operation and trust in SFCs. One, often it is reduced to some kind of a 'cultural' argument where trust and co-operation comes from factors like family background, ethnicity, religious similarity or other such factors. Yet this phenomenon is widely spread across industries and over different kind of economies and in many instances involves entrepreneurs that do not share a 'cultural' background.
- Family ties are important for providing financial base, labor pool, common values etc. but they do not seem to explain the complex inter-firm division of labor adequately in an ID or SFC.
- As discussed in the case of Indian clusters of Surat, Jetpur and Tirupur, there is evidence of co-operation and trust among entrepreneurs, including evidence for collective action through institutions. In these clusters entrepreneurs belong to different caste or community but it is not given the importance it deserves. It often receives a brief mention but the overall conclusion remains in terms of caste ties only.

Through our review we find that research documents other generalized bases for trust, co-operation and institutions like membership in large firms, craft networks, master-apprentice relation, neighborhood ties etc. Thus, our task is to develop an understanding for such ties and the role they can play in IDs/SFCs. In this study, we try to address the following broad questions

- 1 Apart from 'culture', are there other explanations for trust in SFCs?
- 2 What can be the nature of trust in such a case?

There exists a large body of literature on trust and institutions that has developed independently of ID/SFC literature. To get a better understanding of the trust and co-operative ties, we turn our attention to the trust literature in the next chapter.

## CHAPTER 3

### TRUST: A REVIEW

#### 3.1 INTRODUCTION

Collaboration among organizations is not limited to IDs/SFCs. Other forms include strategic networks or joint ventures (Jarillo, 1988, Johnston and Lawrence, 1988, Sydow, 2002), collaborative producer-supplier or buyer-supplier relations (Doney and Cannon, 1997, Møllering, 2002), business groups (Dore, 1987, Ferguson, 1990, Powell, 1998), R&D networks (Powell, 1998, Zucker et al., 1998), etc. Network organizations are said to be trust based (Dore, 1983, Powell, 1990, 1998, Ring, 1992). Trust is also considered as an important mechanism of organizational control (Bradach and Eccles, 1989, Powell, 1998) and many of the studies contrast it with the emphasis that transaction cost economics places on opportunism (Bagnasco, 1998, Larson, 1992, Lazear, 1995, Powell, 1990, Ring, 1992, Sabel, 1992, Uzzi, 1997).

Trust has been studied at various levels. Network studies are meso level studies. The macro level studies are concerned with the rise, maintenance or decline or changing forms of trust in societies at large (Shapiro, 1987, Zucker, 1986). Trust can also be addressed at the level of an individual by taking into account his/her psychology. Some of the issues addressed at this micro level are, why people trust, trust within

organizations, development of such trust, decline and breach of trust, interactions among relative equals, trust and downsizing, etc (Brann and Foddy, 1987, Feldheim and Liou, 1999, Frankmena, 2000)

Many disciplines have studied trust and they offer multiple viewpoints. Economics, psychology, political science, philosophy and sociology, all have contributed to this stream. We take a brief discussion of the different approaches and identify the one that is most suited for our work in the section 3.2. In section 3.3 various bases on which trust can develop have been highlighted and we decide on a relevant classification for the study. The discussion regarding reasons for trust and co-operation (detailed discussion in section 2.4) is now revisited in the light of the bases of trust in section 3.4. In section 3.5, review of a few selected studies that are concerned with trust relations between entrepreneurial firms is presented. Finally in section 3.6, the research framework for the present research has been discussed.

## **3.2 VARIOUS APPROACHES TO TRUST**

The economic approach to trust has been the dominant explanation and it follows a rational choice model. It assumes that individuals are motivated to maximize their personal gains through self-interest seeking with guile and react to others in an instrumental way (Kramer and Tyler, 1998). Trust is defined by one of its main proponent Williamson (1993) as ‘from a rational perspective, trust is a calculation of the likelihood of future co-operation’. Several researchers disagree with this position. Sabel (1992), reasons that theoretical conclusions from self-interested point of view do not lead to co-operation. He describes the logic and his objections to it as follows

First, when the exchanges are many and gains from future dealings highly valued in relation to current ones, then it can well be more advantageous to risk betrayal in the end than to forego the profits to be made in the meantime. In the first case, in fact, it would be wrong to associate co-operation with trust at all, because co-operation results from continuous calculation of self-interest rather than a mutually recognized suspension, however circumscribed, of such calculation. Here it would surely be more accurate to speak of a *modus vivendi* than trust (Sabel, 1992: 216-217, emphasis in original)

Granovetter (1985) points out that the classical and neo-classical economics assumes an atomized, 'under socialized' conception of human behavior where the theoretical argument does not allow 'by hypothesis any impact of social relations' on economic behavior. Most of the economic theory looks at inter-firm relations as predominantly competitive. Thus it is by assumption that the economic theory talks about self-interested action affected minimally by social relations, where theoretical arguments disallow any impact of social structure and social relations on inter-firm ties. Though he cautions that at the other extreme, exists an account where people are conceived as overwhelmingly sensitive to opinions of others and hence obedient to dictates of common norms and values. The first can be seen as an under-socialized account and the second over-socialized conceptualization of human beings. But human beings

do not behave or decide as atoms outside a social structure, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts at purposive action are instead embedded in concrete, ongoing systems of social relations (Granovetter, 1985: 487)



Trust has been the subject matter of psychology and social psychology too. Rousseau et al (1998) after reviewing literature from psychology/micro-organizational behavior to strategy/economics, propose that there is a common ground across these disciplines. The authors consider risk and interdependence as necessary conditions for trust to arise. They define trust as

a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another (1998: 395)

Mayer, Davis and Schoorman (1995) define trust as making oneself vulnerable to others, where they equate vulnerability with risk taking. According to them, their definition is consistent with Gambetta (1988), Boss (1978) and Zand (1972).

The definition of trust proposed in this research is the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party (1995: 712).

However, there is a body of literature that finds the risk based conceptualization of trust as quite limiting. Ring (1997) argues that risk based conceptualization of trust does not explain networks adequately.

In the first definition, economic actors express confidence in the predictability of their expectations. In this definition, trust is frequently equated with the concept of risk, or the probability that future outcomes associated with the transactions will be as predicted by the parties. I describe the kind of trust that exists under these circumstances as 'fragile', permitting economic actors to deal with each other, but only in guarded ways. In such circumstances, I would

expect to find that the parties to a transaction are also relying on formal means (e.g. contractual) for governing their relationship. When the parties rely on this kind of trust, I would also expect to find that they have hedged their bets with the kinds of endogenous safeguards that economists frequently describe (hostages, bonds, insurance and so on), or as a last resort depend on the kind of institutional guarantors (courts, mediators, arbitrators) (1997: 119-120).

Lewis and Weigert (1985) have also considered the psychological approach inadequate to capture the reality of trust. In their view:

There is a large quantity of research on trust by experimental psychologists and political scientists, which, however, appears to be theoretically unintegrated and incomplete from the standpoint of a sociology of trust. The researchers typically conceptualize trust as a psychological event within the individual rather than as an intersubjective or systemic social reality. They also tend to use methodological approaches that reduce trust to its cognitive content through psychometric scaling techniques or to its behavioral expressions in laboratory settings (1985: 967).

Empirical studies have questioned the validity of self-interest and risk-based conceptualizations. Uzzi (1997) in his study of 23 entrepreneurial firms in women's better-dress firms in New York City apparel industry found that respondents viewed trust as

the belief that an exchange partner would not act in self-interest at another's expense and appeared to operate not like calculated risk but like a heuristic—a predilection to assume the best when interpreting another's motive and actions (1997: 43).

A sociological approach considers trust necessary because it helps to reduce the complexity of modern industrial society. The same can also be achieved through rational planning by collecting and processing information about relationships and then determining what outcomes are highly probable. But the universe is not deterministic and even if it were, still such calculations would require substantial resources probably out of bound for many. Trust on the other hand reduces complexity by working as if certain rationally possible outcomes are not going to happen. It reduces complexity far more quickly, economically and thoroughly (Lewis and Wigert, 1985)

Studying trust through a sociological approach seems appropriate because trust can be seen as property of social relations, there will be no need for trust if there are no 'collective units', be it a dyad, group, organization or any similar unit. Trust also presupposes certain levels of familiarity. Much of game theory and psychological experiments seem to fail on this account as they involve virtual strangers meeting for a short duration for a stated purpose. Without familiarity there cannot be any bases for trust.

trust involves a degree of cognitive familiarity with the object of trust that is somewhere between total knowledge and total ignorance. That is, if one were omniscient, actions could be undertaken with complete certainty, leaving no need, or even possibility, for trust to develop. On the other hand, in the case of absolute ignorance, there can be no reason to trust. When faced by totally unknown, we can gamble but we cannot trust (Lewis and Wigert, 1985: 970)

Ring (1997) argues that inter-firm network literature on trust can be categorized into two kinds, which he terms as 'fragile' and 'resilient'. Fragile trust is calculated, opportunistic and risk based. But he further argues that evidence from empirical work on collaboration in various network settings, including IDs and SFCs, give a picture contrary to the fragile view of trust. Here trust arises not because of calculations of gains but because of goodwill of others. This interpretation is based on works of scholars from management, sociology and philosophy. It is the same definition we see apt for SFCs as well. Thus for the purpose of the present study trust is

faith in the moral integrity or goodwill of others on whom economic actors depend for the realization of collective and individual goals as they deal with future, unpredictable issues (Ring, 1997: 122)

Trust and co-operation has been used interchangeably in much of the ID/SFC literature. We would like to note the distinction made between the two by Rousseau et al (1998), where they consider trust as a psychological condition and co-operation a behavioral manifestation of it. They elaborate that trust is not a behavior (e.g., cooperation), or a choice (e.g., taking a risk), but an underlying psychological condition that can cause or result from such actions.

Mayer, Davis and Schoorman (1995) caution against assuming every instance of co-operation to be trust based. Co-operation can be based on power relations too. To take their example, an employee could cooperate with and even appear to act like s/he trusts another employee who they actually do not trust. However, the reason for the cooperation may be the presence of a powerful manager, who is expected to punish the other employee for any act that damages the focal employee's interests.

Though this study is about inter-firm relations, the discussion revolves around relations between entrepreneurs and not organizations. While distinguishing trust from reliance, Blois (1999) stresses that it is the 'affective element', which is necessary for trust rather than just competence. One can rely on a competent person but not necessarily trust the person because of it. It is humans who are capable of feeling and demonstrating the affective element and not organization as an entity. To sum up, for the purpose of the present research,

Trust is:

- A sociological phenomenon, as the need for trust arises not in isolation but in social context only, be it a dyad, group or community
- Still as a concept, trust remains a psychological and an abstract construct, and one of its important manifestations can be co-operation, which can be observed
- Entrepreneurs can take into account both self and other regarding behavior when they engage in trust relations
- Trust relations presuppose some degree of familiarity among the actors involved and a favorable interpretation of other's motive
- However, every instance of co-operation may not be trust based (it can be power based) and care should be taken to observe its origin

### 3.3 BASES OF TRUST

We could identify seven bases that can lead to trust, offered by sociologists, social psychologists and economists. Zucker (1986) came up with a three-way classification of characteristic, process and institutions based trust within the sociological framework. A second classification of trust draws from social psychology and economics and categorizes trust into deterrent, calculus, knowledge and identity based. It was proposed by Shapiro, Sheppard and Cheraskin (1992) and extended by Lewicki and Bunker (1998).

#### *3.3.1 Characteristic Based Trust*

It is tied to social similarity such as family background, ethnicity, religion etc. The premise is that people with similar characteristics have a common background required to develop an understanding and for attaining an outcome that is satisfactory to both the parties. These characteristics are ascribed and cannot be altered easily (Zucker, 1986).

#### *3.3.2 Process Based Trust*

In process based trust, a record of prior exchange that is obtained secondhand or by imputation from outcomes of prior exchange, provides data for the current or future exchange process. It is functional when person specific or firm specific information is available like in case of reputation or gift exchange. It is tied to past or expected exchange (Zucker, 1986).

### ***3.3.3 Institution Based Trust***

It is tied to formal societal structures, depending on individual or firm specific attributes (e g , certification as an accountant) or on intermediary mechanisms (e g , use of escrow accounts) This covers the role of formal institutions in building trust (Zucker, 1986)

### ***3 3.4 Deterrence Based Trust***

Shapiro et al (1992) argue that deterrence based trust is built on consistency of behavior, it is expected that individuals will do what they say because they fear the consequences of not doing it Like any behavior based on theory of deterrence, trust is there to the degree that the threat of punishment holds good

### ***3.3 5 Calculus Based Trust***

Lewicki and Bunker (1998) have extended the concept of deterrence based trust as calculus based trust They believe that deterrence based trust is an outcome of not only fear of punishment but also of the rewards to be gained from maintaining it In this view trust is an 'ongoing, market oriented, economic calculation' whose value is derived by weighing the outcomes of the costs of maintaining or severing the relationship So they prefer to use the wider term- calculus based trust

### ***3 3.6 Knowledge Based Trust***

Lewicki and Bunker (1998) have a similar conceptualization as to Zucker's (1986) process based trust They emphasize on having information and knowing the other party sufficiently well and here, trust evolves over time, largely as a function of the

parties having a history of interaction and thus developing an understanding and trustworthy relationship

### ***3.3.7 Identification Based Trust***

Identification based trust develops due to identification of parties with other's desires and intentions. At this level trust exists because they effectively understand and appreciate the other's wants, this mutual understanding is developed to the extent that each can effectively act for the other. Identification based trust develops due to deep knowledge of the other party's motive (Shapiro et al, 1992)

For the purpose of the present research we take into account only three bases for explaining trust and co-operation in ID/SFC- characteristics, knowledge and institutions. Deterrence and calculus based trust, with their narrow motivational aspects, do not match the description of the ID/SFC literature. Identification based trust is a state when knowledge is so deep that parties to a transaction can effectively identify with many of the partner's needs and desires and act on behalf of each other. Lewicki and Bunker (1998) explain that most of the business relations remain at the level of knowledge based trust and identification based trust is more relevant for inter-personal relations. Hence we have restricted ourselves to studying instances of only the three bases.

## **3.4 BASES OF TRUST AND ID/SFC LITERATURE REVISITED**

We saw in the previous chapter, that in ID/SFC literature the dominant explanation of trust and co-operation is given in terms of culture, like family ties, common religion,



kinship, language or affiliation to the same church or party. Here such identities are supposed to provide for common understanding, and hence trust and institutions that lead to co-operation. This is a conceptualization close to characteristics based trust.

But it can also be seen that characteristic is not the only route to trust. Apart from common characteristics, trust and co-operation can evolve through other bases like knowledge and institutions. Some of the sources we identified in the previous chapter (see section 2.5 for details) are common membership in a large firm, ties of friendship and ties with a neighbor, craft networks and master-apprentice relationships. All the above require certain common experience and these are much closer to knowledge based conceptualizations. Also these practices are quite wide spread across the globe in places like Denmark, Italy, Spain, Lehigh, India and France. Relationships can be seen as evolving through long periods of interaction.

For co-operation in SFCs, institutions like business associations, specialized institutions that provide various services and local government play an important role. Though such institutions have been acknowledged in the ID/SFC literature, again they are seen to draw their strength from common characteristics, as is the case of Italian IDs, where success is seen as a result of common membership to Catholic Church or communist party. But in the examples of Vapi, India and Lehigh Valley, USA (for a detailed discussion see section 2.5), we found that business associations can lead to collective action, even if the membership base is not homogenous. Thus it seems that knowledge can serve as a basis for trust in IDs/SFCs. This base has not been explored

adequately in the existing ID/SFC literature and the present study strives to fill this research gap

### **3.5 TRUST: REVIEW OF A FEW SELECTED STUDIES**

There are a few empirical studies (Kowtha and Menkhoff, 1995, Larson, 1992, Uzzi, 1997) that can provide tentative pegs for the present research, as we share definitional and conceptual similarity regarding trust with their approach. Further, these studies involve either small or entrepreneurial firms and the present study too deals with small firms. However, the research by above mentioned authors is in the context of producer-trader or producer-supplier relationship and not in ID/SFC.

Kowtha and Menkhoff (1995) in their research in Singapore have studied 23 trading firms of Chinese origin. They interviewed the owners through semi-structured interviews to gather the data. The interview questions were related to importance of kinship ties, how these ties developed, the criteria used by traders for trusting their partners, and significance of the institutional context for trade. Their findings are that trust relationships are more important than kinship ties. Their data indicates that 'traditional kinship, dialect group and territorial ties have lost their importance as guarantees in commerce'. Only four of the 23 firms studied maintained ties with kinsmen. The study further states that for this group of businessmen, business relations can be established 'with any reliable person, and they are not influenced or constrained by kinship'. Further, trust is not necessarily based on kinship ties or close friendship alone but familiarity is a matter of experience to them. Even 'uncooked or raw persons' can be promoted as trustworthy business friends when commercial

relations turn out to be satisfactory. Taking up an example of a businessman Mr Lim the authors have following to say

Mr Lim is the owner of an import/export business distributing dried seafood with a complex network of trading partners/business friends in Indonesia, India, Thailand, Mexico and Singapore. Mr Lim claims to be 'related' to the owners of the four major import firms for shark's fins in terms of blood, marriage and ritualized forms of friendship, however, he emphasized that he seldom makes business deals with these firms. The only relative among his trading partners was a 'fictive' relation. This partner, whom Mr Lim called 'uncle' was from Bangkok and a major buyer for Mr Lim. When we tried to find out whether there is any special relationship between him and his uncle in Bangkok he answered "Special ties? He is buying a lot of goods from us. We are making a lot of money from him. He is one of our biggest buyers." In this way, Mr Lim can exploit his 'fictive' kinship connections in Bangkok (Kowtha and Menkhoff, 1995: 12).

In absence of familiarity, reputation and trial can provide a proxy for the same. Reputation can be sought through market indices or a trusted intermediary. Reputation allows strangers an initial basis of interaction. Information provided by banks, chamber of commerce, trade guides provide a basis to proceed in a relationship. Alternatively reputation can be carried by word of mouth and one can claim to be reputed only when others claim so in a group. According to one businessman

Normally we find out from the market. We can also check the reputation of a company through friends. The most common way is to go to the Registry of Companies and Business. You check the company's profile, you can find out who are the directors, how much is the pay up, when the company was registered. Sometimes when the amount is big you must check with the bankers or you ask reference

persons. We can also ask market people who are in the same kind of business, who had some dealing with them. We can also go to his office to look at the size of the business. We can judge even from the appearance of the businessman and the company, how much stock do they have and so forth (1995: 15)

Indices that act as proxies for familiarity, get judged by the intermediary communicating it. The higher the credibility of person or institution carrying it, the higher the value placed on that information. Also reputation alone is a weak enforcer. It is not a substitute for personal interaction. However when familiarity is absent at the outset they provide a basis to interact. The study offers that when 'familiarity is completely absent at the outset, one party can make a credible commitment' to generate trading relations.

This chap needed S\$ 1000 for a business. He got some recommendation and approached an elderly businessman. After 14 days he (simply returned) paid back the money, at the right time. He did not invest it, you know. This he did several times, later on he was able to borrow a large sum which he invested advantageously. So he gained trust. Another chap bought (on credit) razor-blades from an European salesman. He paid one dollar for (each of) them and sold them for 98 cents. The European businessman was afraid not to get his money back. But the young chap had lent out the money which he got from the sale of the razor-blades with high interest rates. So he could pay his bill and make profit (Kowtha and Menkhoff, 1995: 19)

Hence one can see that trading relations are started with minor transactions. If they come up to the expectation, larger orders can follow and gradually as familiarity increases, trust develops. The relationships take time to develop and trust does not

Within the first year of his company's operations a fire destroyed much of his business. After the fire, friends and business acquaintances extended credit at very favorable terms so that the entrepreneur could rebuild his business. From this experience the individual came to believe in the power of strong relationships, not based solely on short-term economics but economics overlaid thickly with an ethos of friendship and mutual assistance (Larson, 1992: 85).

The study also emphasizes the role of firm's reputation and that the tie should be advantageous for both the parties. Also it pointed out that trust developed gradually and the relationships went through a trial period.

The paired set of companies moved successfully through a developmental trial period, at the conclusion of which a stable and predictable network organizational form governed subsequent behavior. Representative account of the processes of the trial period follow: "You can't start out with a full-blown relationship. It's got to be incremental. You get closer as each side takes small steps. When I first started I didn't know whether I could believe what they told me, but experience, facts you collect, the transactions, build trust," (Larson, 1992: 88).

Uzzi (1997) while discussing the properties of embedded ties found trust, fine grained information transfer and joint problem as features of such ties. He describes trust as

"It's a personal feeling", and "Trust means he's not going to find a way to take advantage of me. You are not selfish for your own self. The partnership [between firms] comes first" (1997: 430).

On development of these ties he notes

I found that embedded ties primarily develop out of third party referral networks and previous relations. In these cases, one actor with an

embedded tie to two unconnected actors acts as their “go-between” The go-between performs two functions he or she rolls over expectations of behavior from the existing embedded relationship to the newly matched firms and “calls on” the reciprocity owed him or her by one exchange partner and transfers it to the other In essence, the go-between transfers the expectations and opportunities of an existing embedded social structure to a newly formed one, furnishing a basis for trust and subsequent commitments to be offered and discharged (1997: 48)

We will also like to recapitulate the examples of French and Italian clusters, discussed in the previous chapter that provided us with a view of development of trust One finds that in French cluster of small firms in machine tools, if a particular supplier is doing new business with a firm, they are given short-term deals only If such deals turn out to be satisfactory, trust may develop and a larger volume of business will go to the firm Manufacturers say that the process of developing trust can take anywhere between one to three years (Lorenz, 1993) Even for the Italian industrial districts, where culture argument has been put forth with some regularity, Bagnasco (1998) points out that two friends can come together and start their own business (apart from the usual ties of extended family) so can a manager with the blessings of his boss According to him, trust can build up by repeated contacts, and can get cemented by friendship and acquaintance

Sample designs and price information is freely discussed between producers and their artisans in the Modena knitwear cluster in Italy Any adjustment in initial terms and conditions of the work agreement is made quickly and in a mutually satisfactory way

Such co-operation is based on trust among people in this industry. But trust develops in relationships through repeated transactions. Over 80 percent of manufacturers and artisans report that the above features are of those ties which are more than five years old and form only after they have conducted business with each other for a long time (Lazerson, 1995). Formal contracts did not play an important part in the relationship

Written contracts are also exceedingly rare in the knitwear industry, and even when used, they are written on standard legal forms containing boiler-plate language that is not written by lawyers. For most manufacturers and artisan, a party brandishing a written contract implicitly conveys a message of distrust and therefore should be avoided (1995: 49)

To sum up, we expect trust ties to be voluntary in nature and they are not to be confused with co-operation that is based on power relations (Mayer et al., 1995, Uzzi, 1997). Lack or non-use of written contracts might indicate presence of trust among parties (Lazerson, 1995). Trust involves a favorable interpretation of others' motive (Uzzi, 1997) and the relationship should be mutually advantageous for both the parties (Larson, 1992, Uzzi, 1997).

Trust presupposes some familiarity because in absence of it one can only gamble and in case of complete knowledge there is no need for trust (Lewis and Weigert, 1985). Familiarity can establish a basis for trust (Kowtha and Menkhof, 1995, Larson, 1992). In absence of familiarity, reputation or third party referral can serve as a proxy for familiarity and may initiate trust ties, and in a new relationship a trial period may be required for trust to develop (Kowtha and Menkhof, 1995, Larson 1992, Uzzi, 1997).

The meaning of various terms related to the issue of trust that are discussed in this paragraph, is given in Appendix A

### **3.6 TOWARDS A RESEARCH FRAMEWORK**

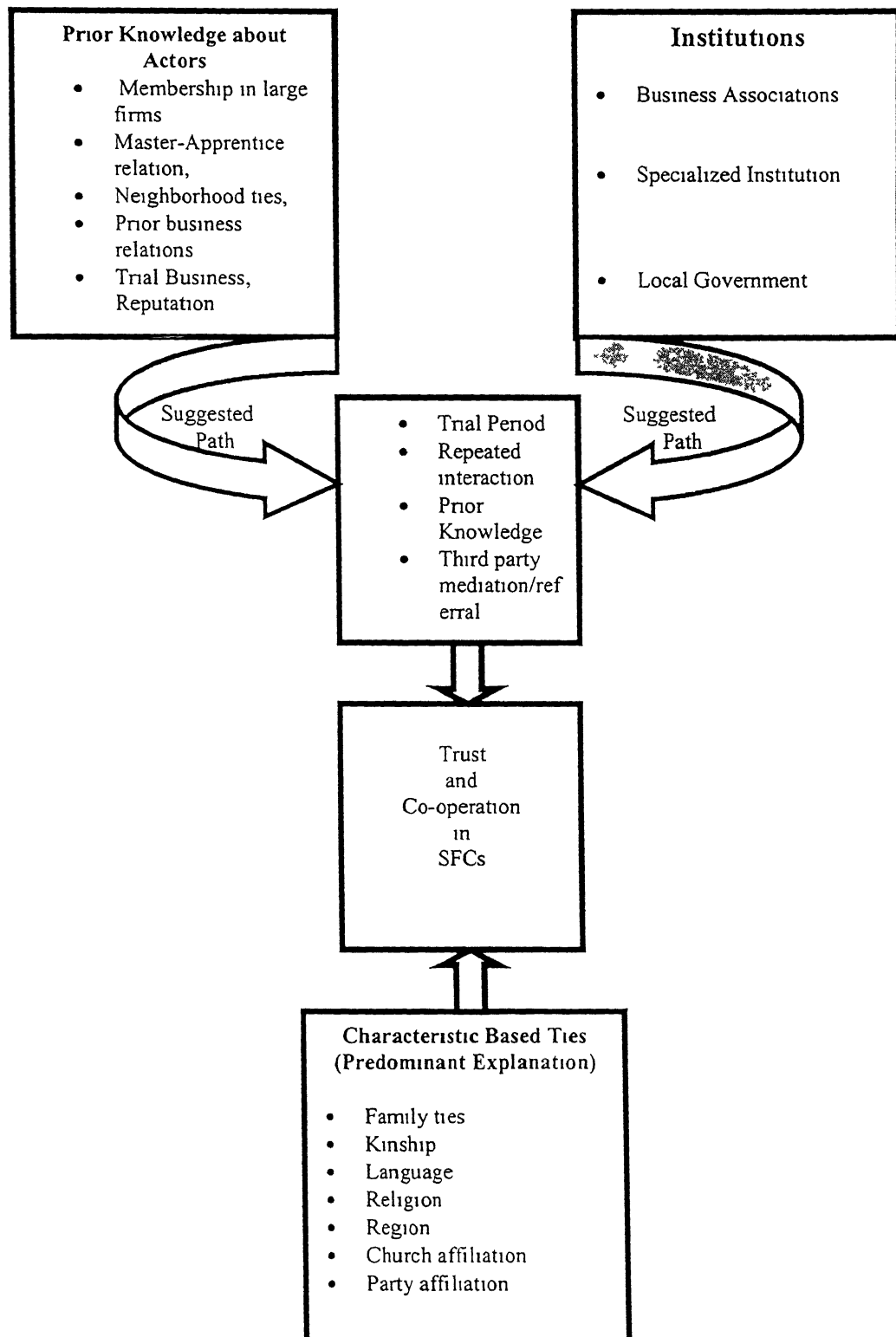
The examples from ID/SFC literature in the previous chapter (section 2.5) and the discussion from trust literature in previous demonstrate that there is evidence for trust ties based on knowledge and institutions and the proposed model of trust based relationships for the present research is summarized in figure 3.1

ID/SFC literature suggests that trust can emerge through the route of characteristic based identities like family ties, common religion, kinship, language or affiliation to same church or party. Such identities are supposed to provide for common understanding, and hence trust and norms that lead to co-operation. But this is not the only route to trust.

Apart from common characteristics, there are various instances of co-operation even where trust seems to result from interaction and knowledge about business partners, than characteristics. This knowledge can be acquired through many sources. The sources we have identified, from the literature, are prior relations due to common membership in a large firm, ties of friendship, ties with a neighbor, craft networks, master-apprentice relationships, reputation and in case of lack of familiarity, a trial period. All the above require certain common experience and these are much closer to knowledge based conceptualizations.



**FIGURE 3.1: POSSIBLE PATHS TO TRUST AND CO-OPERATION IN IDS/SFCs**



For certain collective actions that have cluster-wide implications, business associations, specialized institutions that provide various services and local government play an important role. Though such institutions have been acknowledged in the ID/SFC literature, again they are seen to draw their strength from common characteristics. But in Vapi, India and Lehigh Valley, USA, we found that business associations can work successfully for co-operation, even if the membership base is not homogenous. Both, ID/SFC and the literature mention that institutions can lead to trust, through interaction between institutions and its members, hence the issue needs further investigation.

Moreover, the evidence discussed suggests that prior knowledge and institutions may not automatically get translated into trust. There is a process of trust formation involved. Relations may develop after repeated interaction or through third party mediation. In our model in Figure 3.1, we have not ruled out the possibility that common characteristics may directly result in trust formation and co-operation, but from the evidence collected above, it seems more plausible that there will be a process, which finally leads to trust and co-operation.

### **3.7 RESEARCH QUESTIONS**

In this chapter, we have discussed the research agenda in the light of literature on trust and have identified a suitable approach for this study. Finally we have the following research questions:

- 1 Are there other routes to trust amongst entrepreneurs in SFCs apart from common characteristics?
- 2 Can trust amongst entrepreneurs in SFCs be knowledge based?
- 3 What are the processes that lead to knowledge based trust in SFCs?
- 4 What role do institutions play in fostering trust and co-operation in SFCs?

## **CHAPTER 4**

### **METHODOLOGY**

#### **4.1 INTRODUCTION**

In this chapter we discuss the methodology for the present research. We have adopted a qualitative approach to the study and within it a case study method. The choice has been dictated by the nature of the research questions. In Section 4.2, the qualitative approach is discussed and justification provided for using it in the present research. The case study method is described in Section 4.3, including definitional and other issues, like selection of the case and unit of analysis. Issues related to data collection and data analysis are discussed in Section 4.4 and 4.5 respectively.

#### **4.2 QUALITATIVE APPROACH TO RESEARCH**

Traditionally, a quantitative approach to research in management has commanded more respect than a qualitative one, but in the recent times this has begun to change. Denzin and Lincoln (1998) remark that for more than two decades qualitative research has become more popular. Though the approach is not new, the authors consider the change quite sharp in recent times and call it a “qualitative revolution.” They define qualitative research as

Qualitative research is multimethod in focus, involving an interpretive, naturalistic approach to the subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret, phenomenon in terms of meanings people bring to them. Qualitative research involves the studied use and collection of a variety of empirical materials—case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts—that describe routine and problematic moments and meanings in individuals' life. Accordingly, qualitative researchers deploy a wide range of interconnected methods, hoping always to get a better fix on the subject matter at hand (Denzin and Lincoln, 1998: 3).

Qualitative research employs techniques like ethnography, case studies, grounded theory technique, biographical method, historiography, and participant observation. Research methodology literature describes the characteristics of qualitative research and in order to have a better understanding of it and explaining our choice, some of the important features are discussed below:

- A qualitative research properly seeks to answer questions by examining various social settings and individuals who inhabit these settings (Berg, 1998). Qualitative researchers try to examine a problem close up to where it is happening and believe in securing rich descriptions of social world (Denzin and Lincoln, 1998).

- In a qualitative research the emphasis is often on building theory, through methodologies that are grounded in data, rather than theory testing (Symon and Cassell, 1998)
- The researcher himself or herself is important and Denzin and Lincoln consider her/him as a bricoleur, where

A bricoleur is a “Jack of all trades or a kind of professional do-it-yourself person” The bricoleur produces a bricolage, that is pieced-together, close-knit set of practices that provide solutions to a problem in a concrete solution (1998 3)

- The qualitative method, instead of trying to erase all personal traces of the researcher from the work so as to provide the reader with the ‘illusion of unmediated process’, tries to explicitly mark the involvement of the researcher (King, 1998)
- Qualitative investigators may be able to get a closer look to the subject’s perspective through detailed interviewing and observation whereas quantitative researchers may rely on more remote, inferential empirical materials (Berg, 1998, Denzin and Lincoln, 1998)
- Qualitative methodology also acknowledges that it may not be very fruitful to try and define ultimate truth, free of values and biases It takes the view that all research studies are embodied in cultural practices (Denzin and Lincoln, 1998, Symon and Cassell, 1998)

The choice of the methodology finally rests on the research questions of the study and its settings. As stated in the previous chapter, the primary purpose of this work is to study the nature of trust in a SFC and to see if there are other routes to trust than 'characteristic', like 'knowledge' and 'institutions'. Qualitative approach seems to be appropriate for our study as trust is a phenomenon that cannot be de-linked from the context in which it is taking place. Further, through a qualitative method a rich description of it can be yielded that is closer to the actual point of view of the subjects, i.e., entrepreneurs. The research design for the present research has been detailed in the next section.

### 4.3 CASE STUDY METHOD

Within the qualitative approach, the present study follows the case study method. Yin (1991) suggests that case study is an appropriate technique depending on the answers to the following three questions- (a) the type of research questions posed, (b) the extent of control an investigator has over actual behavioral events, and (c) the degree of focus on contemporary as opposed to historical events. According to Yin,

A case study is an empirical inquiry that

- investigates a contemporary phenomenon within its real-life context, when
- the boundaries between phenomenon and context are not clearly evident, and in which
- multiple sources of evidence are used (1991: 23)

Yin (1991) further adds that ‘how’ and ‘why’ research questions are more suitable for case study. However, case study is appropriate for ‘what’ questions too that are not seeking ‘how much’ or ‘how many’ kind of answers. Research questions in the present work are a good fit for doing a case study. Trust is a phenomenon that is very difficult to separate from the context in which it is happening. Case study is preferred in examining contemporary events, where the researcher cannot manipulate the relevant behavior. As the present research studied the nature of trust and co-operation in real life entrepreneurial relationships in a SFC, there was no control over the behavior of the entrepreneurs that could have been exercised. The questions that the present research poses are suitable for a case study. Even though the questions of the present research have a ‘what’ component, it is not seeking answers in the nature of ‘how much’ or ‘how many’. We are interested in studying the nature of trust in SFCs and if it can be knowledge based? Further, we are interested in the processes that can lead to knowledge based trust. Another concern of the study is to understand the role of institutions in fostering co-operation and trust in a SFC. None of the above questions are seeking ‘how much’ or ‘how many’ kind of answers. On the basis of the above considerations a case study was followed in the present research.

The unit of analysis for this research is various horizontal, vertical and institutional ties in a SFC. We used a holistic case study design as they are said to be useful when no logical sub-units can be identified for the study (Yin, 1991). The various inter-firm relations in small firms can be captured adequately by studying the behavior of the top management or owner, as they are involved in all the key aspects of the business.



Owners and managers are the one who particularly handle inter-firm transactions, hence a holistic design serves our purpose

Stake (1998) discusses three types of case studies-intrinsic, collective and instrumental. In an intrinsic case study the case itself is of importance because 'one wants to better understand the particular case'. Here the purpose is not to build theory or understand some abstract construct. When a number of cases are researched jointly in order to understand a phenomenon, then the strategy is called collective case study. In an instrumental case study a particular case is examined to 'provide insight into an issue or refinement of theory'. The present research falls under instrumental category, where the purpose is to try to contribute towards a better understanding of trust and co-operation in a SFC.

#### *4.3.1 Selection of the Case*

There are certain characteristics associated with IDs and they are well documented. Features like geographical concentration of the firms, predominance of small firms, existence of co-operative relations, flexible technologies leading to inter-firm division of labor, high road to employment and existence of specialized institutions are associated with canonical IDs. The basic model, called SFC, supposes only geographical concentration of small firms and other features are subject to empirical inquiry (see Section 2.2 for a detailed discussion). The selection of the case was made by carefully matching the features mentioned above with the cluster that we picked up for study.

After carefully reviewing the Kanpur saddlery cluster, it was selected as the case for this research. In this cluster there are many small firms concentrated within one city that produce saddlery for export. Firms supplying critical raw materials like leather, metal fittings and saddletree are located within the city itself. Thus the concentration of firms fulfills the criteria of a SFC. The exporting firms do not vertically integrate and buy almost all the supplies from outside, hence inter-firm ties become important. There are specialized institutions that work for either the leather industry in general or the saddlery cluster in particular. As the Kanpur saddlery cluster satisfies many of the criteria associated with IDs, it was finally the choice for the study.

Additionally, the cluster is unique and of importance because Kanpur is the only city in India where saddlery is made and most of the production is exported, there being very little domestic demand. Saddlery production remains skill intensive and manual, hence the cluster has potential for employment generation. Moreover, the cluster involves people from two different communities and it was of interest to study the trust relations in such a setting.

To be certain that it would be fruitful to study Kanpur saddlery cluster, a pilot study, consisting of 4 interviews, was conducted. Data from these studies is not included in the actual research because the interviews were used to gain insight into the problem and preparation for actual data collection. The questions asked in these interviews were unstructured. The aim was to make sure that entrepreneurs were open to the idea of trust and co-operation, otherwise there was no point in going for further research in this cluster. We talked to certain key people in the industry and institutions to get an

idea about the suitability of this cluster for our research purposes. Initial inquiries were made with a few representatives of the industry and an effort was made to determine if they viewed their relationships as trust based and if there were certain co-operative practices that were unique to these relations. The initial responses were encouraging and it looked worthwhile to explore this cluster further. A representative of NLDP (National Leather Development Program, a country wide program running under the aegis of United Nations Development Program, (see section 5.2.9 for an introduction to various institutions) provided further leads, as he had contacts with many exporters in the context of the specialized program that NLDP was running for the saddlery industry. He further provided addresses of other members of institutions and exporters.

#### *4.3.2 Selection of the Units*

Selection of the organizations was done from the list of firms provided by CLE (Council for Leather Exports, see section 5.2.9 for details). Care was exercised to take into account views from exporters of both the community. The respondents were all males, as I could not find any women heading a saddlery firm, though in many cases they were working in the capacity of office assistants. The age of the respondents also varied and the second generation of exporters were invariably younger. Larger established firms as well as smaller ones were contacted, where again CLE members were of assistance in identifying the units. The list provided by CLE was for saddlery exporting firms only. Leather suppliers were located through information provided by a few exporters and one leather dealer. Some of the exporters and suppliers were also identified because their firms had web pages that showed up in internet search.

#### 4.4 DATA COLLECTION

The data was collected through primary field study. I conducted semi-structured interviews to get the data on trust and co-operation. All the data on trust and co-operation came through semi-structured interviews only, as institutional publications provided only for information related to background of the cluster. Still, care was taken to consider multiple viewpoints from exporters, suppliers and members involved with institutions, to reduce error due to respondent's bias. Various trade publications and reports published by CLE were helpful in providing background information. In all 40 interviews were conducted involving 33 respondents. Most of the interviews lasted from 1 to 1.5 hours. However, a few of them lasted for a very short while. In one case, a job worker agreed for a short 20 minutes telephonic interview. He explained that his workshop is in interiors of Kanpur city and it would be very difficult for me to travel to that area. He added that he had no proper office space too, where we could conduct an interview. I met another person by chance, who was a textile material supplier, in the office of an exporter. He also answered my queries for 15 minutes. The longest interview was of three hours.

While reporting our data, we have denoted exporters as E1, E2, etc. Manager of exporting firms have been called MFE and manager of leather firm, MFL. Leather, metal and textile suppliers are denoted as LS, MS and TS. LD is a leather dealer. Job worker is identified as JW and members of institutions as MI1, MI2, etc.

The owners/managers were first contacted on telephone, to ask for their permission to visit and interview them. I introduced myself as a PH.D student, interested in learning

about the management practices of small firms. The most difficult task was to get the owners/managers on phone, as they were busy, traveling frequently within and outside India. Most of the entrepreneurs agreed to give some time, but there were a few who declined. In a few instances, exporters were willing and agreed to give me time on some future date. They asked to confirm later but were untraceable afterwards. In the time period, between July to September and February to March, two important trade fairs are held. Most of the exporters were busy preparing for SPOGA trade fair in Germany and BETA in UK and it was impossible to schedule any meetings in those months.

#### *4.4.1 Dimensions of Data Collection*

The broad category of questions included information regarding the background of the cluster, the owner's background, inter-firm relations, vertical co-operation and horizontal co-operation. Effort was made to understand the history of Kanpur saddlery cluster. The cluster came up during the British rule in India and an attempt was made to trace the evolution of the cluster but details about its evolution were not clearly known. Other information gathered was about the number of firms in the cluster, average size of the firms, various suppliers and views related to labor practices. Questions related to the background information were modified when needed. For example, it took some time to get familiarized with various products (harness, bridle, tree, halter etc.) As I became acquainted with these terms, related questions were later dropped. Through the questions related to owner's background, we tried to gather information on the number of units owned by him, for how many

years they have been in business, the kind of technology they used, how they generated orders from abroad, etc

To gather information about inter-firm relations, an effort was made to know about the number of suppliers a firm had and which of the suppliers were considered critical to the firm. At no point a leading question like 'do you trust your supplier?' was asked. After a few interviews it was observed that if one raised the question of contracts governing the relationship, the discussion itself was taken by the entrepreneur to the topic of 'trust' 'mutual faith' or whatever similar term that they found fit to describe the relationships.

It was difficult to ascertain the community of the business partner of the respondent. The entrepreneurs seemed sensitive to this question in howsoever a roundabout way it was asked. There were a few respondents that took this question head on and revealed the identity of their supplier firms but in many instances this question could not even be discussed. It was only my individual judgment that helped in deciding whether or not to pose the question. Also I could not find any structured question, (unlike the case of contracts, that would lead the discussion to trust) which would lead to the desired response. Still the identity could be established in many cases and the details of this issue are taken up in Section 6.5<sup>1</sup>. Finally effort was made to document information on length of the ties, whether they inspected their partner's work, role of

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<sup>1</sup> While reporting our data in Chapters 4 and 5, we have refrained from naming the communities and call them community X and Y. There are two reasons for this, firstly this decision was taken to give due respect to the sensitivity shown by respondents toward the issue. Secondly, the actual names do not make any difference to the discussion or findings of this study.

reputation, if there were other suppliers available for the same goods etc. We have included the list of questions in Appendix C.

The interviews were transcribed the same day into notes and these notes form the basic raw data. The interviews were not recorded because various respondents during the pilot study advised against it. They felt recording might make the respondents defensive about what they speak and share less information. Field notes were continuously examined to delete redundant categories and see where a gap existed. This process was used as a feedback for further interviews. In addition to documents and interviews, data was also collected from direct observations as I had the opportunity to witness visits or phone calls of other entrepreneurs during my stay at factory premises and in one instance to talk to a supplier who was on such a visit.

## 4.5 DATA ANALYSIS

Analyzing case study data is considered difficult because the techniques for the purpose have not been very well defined (Eisenhardt, 1989, Yin, 1991). Even to make sense of the raw data is a daunting task. King (1998) describes the technique of template analysis to code the data, which we found useful for our research. A brief discussion of the technique is given below.

### *4.5.1 Template Analysis*

The data has been coded through template analysis. Interviews, field notes and various types of unobtrusive data are often not amenable to analysis until the information they convey has been condensed and made systematically comparable.

An objective coding scheme must be applied to the notes or data. The essence of the approach is that the researcher produces a list of codes (a template) representing themes identified in the textual data. Some of these will usually be defined a priori, but they will be modified and added to as the researcher reads and interprets the texts. King elaborates on it:

Unlike grounded theory approach, template analysis normally starts with at least a few predefined codes, which help guide analysis. The best starting point for constructing an initial template is the interview topic guide- the set of question areas, probes and prompts used. Main questions from the guide can serve as higher order codes. The topic guide itself draws on some or all of the following sources, depending on the academic literature, the researchers own personal experience, anecdotal and informal evidence, etc. Main questions from the guide can serve as higher order codes and subsidiary questions and probes as potential lower order codes. This is most effective when topic guide is fairly substantial, with the interviewer defining in advance most of the topics to be covered in the interview (1998: 122).

#### *4.5.2 Defining Codes*

Put simply, a code is a label attached to a section of text to index it as relating to a theme or issue in the data, which the researcher has identified as important for interpretation. For us the higher order codes were background information, buyer information, issues related to labor, job workers, issue of contracts and trust, development of the relationship, price differentials, issue of monitoring, co-operation,



issue of community ties and horizontal ties and institutions. A complete list of codes is given in Appendix D.

#### ***4.5.3 Revising the Template***

It is quite possible that once a template is constructed through literature review certain categories become less important for a particular empirical setting. For the present study once an initial template was constructed, an effort was made to revise it after a few interviews as certain themes were not applicable to this cluster but seemed important through literature review. The issues related to innovation and uses of consortia were a few such themes.

#### ***4.5.4 Insertion***

Insertion happens in the case where the researcher identifies an issue in the text of relevance to the research question, but not covered in an existing code. In such a case, it is necessary to add a new code. In this research insertion of code happened for the issue of norms. In the course of data collection it was realized that certain co-operative practices in the cluster did not seem to happen due to personal ties but looked to be functioning like a norm. So after certain number of interviews, we became actively interested in those practices and added questions related to them. After the coding was complete the emergent data was matched against our research framework as described in section 3.6 to come up with the findings of the study.

### **4.6 SUMMARY**

In this chapter we have detailed our choice of methodology. After careful consideration the Kanpur saddlery cluster was selected for the study. Data was

collected through semi-structured interviews and various institutional and trade publications. In the Chapters 5 we report the data related to background information about the cluster. Data about trust and co-operation is discussed in Chapter 6.

## CHAPTER 5

### SADDLERY CLUSTER OF KANPUR: A BACKGROUND

#### 5.1 INTRODUCTION

Leather is an important industry in India for earning export revenue. The major products exported to other nations are leather footwear, footwear components, leather garments, leather goods, saddlery and harness and finished leather. Country wide leather export figures for the year 2002 (till April) were: leather footwear earned US dollar 32.42 million, leather garments 9.34 million, leather footwear 32.42 million, finished leather 43.65 million, footwear components 13.12 million and saddlery and harness 3.06 million. Saddlery and harness showed an increase of 76% from April 2001 (CLE website, 2002).

Though saddlery goods make only a small part of the total exports, still it is of interest for us as all the production is done only in one city of India, Kanpur. The city is located in the state of Uttar Pradesh (UP) and is one of the biggest cities in the state. It lies on the west bank of the river Ganges. Kanpur was considered to be industrial capital of the state and had manufacturing base in textiles, military equipment and wool but many of these industries, particularly textiles, are now on decline. Leather industry is still viable in Kanpur and the city is considered among

three important centers of production within the state of UP, the other two are Agra and Noida. Kanpur is the largest producer of saddlery, in terms of volume, in the world but it has a marginal share in terms of value in the global market. The top ranking nations, for saddlery manufacturing, are the USA, Germany, Austria, and UK among others. Mexico, Argentina and Romania are in the same league as India, though these days the biggest competitor to India that has emerged is China.

A saddle is a small seat placed at the back of the horse to provide the rider with control and security while riding. Saddlery range consists of many other accessories, apart from the saddle and in all it contains more than 300 different types of products. This entire range is made in Kanpur with elaborate division of labor within and among firms. It has very little domestic market in India, as riding is neither popular nor affordable for masses. Most of the production in the city is for exports, primarily to European and American market.

In this chapter, saddlery cluster of Kanpur is seen through the industrial districts (ID) framework. In section 5.2, background information like the extent of geographical concentration of firms, size of the firms, product information and role of specialized institutions is discussed. In section 5.3 foreign market conditions have been discussed. It includes information about market segments in which Indian firms sell, how they generate orders and their relationship with foreign buyers. Practices related to labor are discussed in section 5.4 and include a note on contracting system, wages and issue of training. Job workers and their relationship with exporters are discussed in section 5.5.

## 5.2 BACKGROUND INFORMATION

### 5.2.1 *Geographical Concentration*

There are around 150 to 250 small producers in Kanpur who export saddlery and its accessories. This estimate is a rough one derived from the companies listed with Council for Leather Export (CLE) and what exporters themselves tell. However, it is difficult to put an exact number to the firms. The CLE list puts the number to around 150 but some firms on the CLE list, when contacted, reported that they had closed down. On the other hand, many exporters to whom I talked put the number to around 300. They report that all units are not registered, hence the CLE list is an underestimation of the actual number of firms in the cluster. The number of firms might be anywhere from 150 to 250.

Raw materials used for making saddlery are available locally. The main inputs are vegetable tanned thick leather, metal fittings and a special platform on which the saddle is mounted called a 'tree'. All these inputs are produced in the city of Kanpur and Unnao, a small town situated 38 km from Kanpur. Within the city, the saddlery and leather-tanning firms cluster heavily in the industrial area of Jajmau. As saddlery making is a small-scale operation, many exporters operate from rented premises too, mostly houses, often in residential areas of the city.

There are more than two hundred tanneries in Kanpur, but around 20 big tanneries are making special leather used for saddlery production, in addition to 30-40 smaller ones. This leather is also used for making belts and industrial boots. There are 100 to 150 metal workers and about twenty tree-makers present in this cluster. The metal

workers and tree makers are very small firms and by and large they are not registered units. Some metal fittings are bought from Aligarh (another city at a distance of 277 kilometers) but exporters still prefer to buy them through local dealers at Kanpur. Tree makers work mostly from unregistered household units, situated in the interiors of the city. The people following this trade are carpenters. Certain items in saddlery range are made of textile products, like quilt to cover a horse. Textile materials are manufactured in another state, Punjab, but textile producers have started opening local dealerships to sell their products in Kanpur. A map of the Kanpur city and location of places where firms cluster heavily is given on page number 202.

Saddlery making is confined to Kanpur due to historical reasons. The production started in 1860s with the establishment of a factory, Cooper Alan, by British India Corporation. The production was done for the army and the police. The World War I saw a growth in demand for these goods and establishment of Ordnance Equipment Factory. In the inter-war period the demand went drastically down. It picked up again during World War II, but by the end of the war and particularly after India's independence the industry came to a stand still. It was only by the end of 1960s that a few local entrepreneurs took initiative to revive this industry again and made use of local resources both in terms of tanning and skilled labor. Since the 1980s exports started to pick up and have grown since then. According to exporters in Kanpur, people at other cities have tried to start saddlery production but these attempts have not been successful due to unwillingness of labor to move to other cities.

### *5.2.2 Small Size*

The firm size by the number of employees is small and permanent employees are few, often not exceeding 10, mostly working in supervisory capacity. But people doing the actual production are invariably more, and they are contract workers. According to the size of the export order, an exporter increases or decreases their numbers. These workers are not employed with the firm but are hired to work on a specific commission, on a piece rate basis. So a firm might be having 50 workers engaged in production on the premises but the monthly payroll will still show only five to ten employees. Once the export order on which the current labor force is working is over, the firm has no further obligation to the present labour force. If the existing firm does not have any more orders, the labor can go and work for another firm but they can come back to this firm when it has new work. So the actual number of people working for a firm can be significantly larger than the number of permanent employees. In this system workers often end up working for more than one exporter simultaneously.

Based on discussion with exporters, we estimate that in Kanpur there might be 5 exporters who do business of more than Rs 5 crore<sup>1</sup>s in a year. There might be 10 to 15 people in the range of Rs 2 to 5 crores and around 20 people who do business worth Rs 1 crore.

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<sup>1</sup> Rs 5 crore are approximately equal to 1 million US dollars, with exchange rate of 1 US dollar equal to 48 rupees.

The majority of exporters may be doing business of less than Rs 50 lakhs and there might be 100 such people. So even by the size of annual turnover the firms are small.

### 5.2.3 Type of Saddle

Saddles are made in various sizes to suit the rider and the horse. Saddles for children are smaller compared to that for adults. Other minor variations occur due to color and style. The saddles exported to Europe (English Saddles) have different characteristics from the ones that are exported to the USA (Western Saddles). The main difference lies in the nature of tree and metal fittings. The English saddle is flat, whereas the Western saddle has a high *pommel* and *cantle*.

Saddlery consists of a huge range of products and can be divided into four categories. The first category is *saddle* itself. Within English and Western saddle they can be further classified as western Cowboy, traditional Australian stock, Halflinger, Dressage and racing saddle. They can weigh anywhere between 500gms to 15 kg. Next are *harness sets* and they are used for driving horse drawn coaches. They are made for single horse, double horse and four-horse set. The main inputs for making harness are leather and brass fittings.

The third category is of *accessories*. These include *bridles*, *halters*, *stirrup*, *girths*, *saddle pads* etc. Finally there are *saddle* and *grooming equipment*. These products are used within the stable or while training the horse. The common equipments used are *summer heeds*, *rugs*, *horse boots*, *lead reins*, etc. They are made of cotton, nylon, woolen and nylon combinations, and felts. In Appendix D contains pictures of a few products from the saddlery range.



#### 5.2.4 *Special Leather*

The leather used in production of saddlery is special. It is called thick leather in common parlance and is made of vegetable tanned buffalo hide. It is different from the leather used in making of fashion shoes or garments. Leather tanning is a time consuming process. Usually leather is kept in the tanneries after basic processing and final colors are given according to the preference of the exporter. However, thick leather made out of buffalo hide is considered inferior in Europe to similar leather made out of cowhide. The better-made products from India, commanding higher prices in world market, are mostly made from imported cow leather.

Exporters complained about the quality of raw hides. They said that the animals were not reared for the industry and hence the quality of the hides was poor and this was considered a primary drawback in the international markets. Cow skin is deemed superior to buffalo skin, yet the ban on cow slaughter in India leaves the exporters to work with other skins, which does not lead to a favorable impression of Indian products in foreign markets. The quality and finish of buffalo leather though have improved over the years. Finished hides are more consistent due to *drum drying* that gives fast coloring and even coverage.

#### 5.2.5 *Saddle Trees*

The saddle is mounted on a platform called *tree* and it can be made of ply, solid wood, fiberglass or plastic. The wooden tree saddles fetch the lowest prices and the polyurethane ones the highest. The industry in Kanpur predominantly uses wooden trees. The solid wood construction is very heavy and is not considered to be a

sophisticated product. To give added strength to the wood, metal springs are added to the structure. In comparison to solid wood, trees made of ply have more strength and less bulk and thus finer finish. But such trees are not used generally in Kanpur cluster.

The fiberglass tree is the second most used platform in the industry. Better-made saddles selling in middle range will often be built on it. This tree poses no problems for a western saddle (exported to the USA) as the style of riding involves slow to medium gaits over long distances. Western tree is also much larger in structure, hence it possesses inherent strength from the amount of material used. The English tree (exported to European market) is a much smaller structure and the weather in these regions can be extremely cold. Fiberglass tree can become brittle at low temperatures. A wooden tree gives a warning when it starts going bad. Its shape will alter due to soaking and the stretch of the leather will go bad. On the other hand, fiberglass trees do not even give this kind of a warning and can suddenly fail. Still fiberglass saddles fetch higher price in the market. Many of the exporters use fiberglass trees and can get the moulds for making such trees made locally.

Polyurethane trees are used for most sophisticated kind of saddles, they can be used for racing or show jumping. Famous companies like Fieffer, Stubben, Fieldhouse Albion, etc. are using them for their top end of saddles. These trees are not handmade, like wooden trees, but made with moulds. Because of this, quality and consistency can be assured in terms of stress loading, climatic variations, etc. They have much longer life than a wooden tree. A top quality wooden tree is expected to last from five to ten years whereas a plastic tree will have life measurable in decades. In Kanpur,

moulds for making polyurethane trees are mostly imported and they are costly, hence the price of the final product becomes high

The industry, in collaboration with National Leather Development Program (NLDP), a body funded by United Nations Development Program (UNDP), has taken steps to rectify this problem. In an attempt to get plastic trees made within the city NLDP contacted Harcourt Butler Technology Institute (HBTI), Kanpur, which has a department of Plastic Engineering and Technology, however, the institute indicated its inability to undertake such a project due to lack of infrastructure and faculty. Central Institute of Plastic Engineering and Technology, a tool room facility created by Central Government in the neighboring city of Lucknow (72 Km) was then approached but they too expressed inability to do this job on priority basis. Finally, NLDP came to an agreement with Indian Institute of Technology, Kanpur, which is rated as one of the top engineering institutes of the country, for development of such moulds in the city. This issue will be taken up in detail later while discussing collective action through specialized institutions of this industry in Section 6.8

#### ***5.2.6 Making of a Saddle***

The saddle making is a complex process and is performed by skilled labor. The basic inputs are various types of leather cuttings, tree and metal fittings. Leather is mounted on the tree and various items like *skirt*, *kneepad*, *flap*, *stirrup*, *lining*, etc. are attached to the seat. The putting together of these components is called *lacing in*. This is considered to be a skilled operation and workers doing it command higher pay. Another skilled operation is *flocking*. A *panel* is attached to the *belly* of the saddle

and is the point of contact between horse and the saddle to provide the horse a cushion. This leather panel is filled with wool and it has to be spread evenly to provide comfort to the horse. This is another skilled operation and commands better wages in the saddlery industry in Kanpur. Most of the work is still done manually and only a few simple tools like sewing machines, hand held tools for making holes, tools for cutting or splitting leather are required. At present machinery does not play a very important role in this cluster.

The level of mechanization is quite high abroad. Machines are used for splitting leather through splitting machine, for cutting leather in various shapes through dies and pressing machines and for making holes in accessories like halter, bridle, etc through automatic hole punching machines, to name a few operations. But all these operations are only for making accessories and for cutting the leather in various shapes to make the saddle. The most skilled job, world over, is to put together the final saddle and still remains skill intensive. NLDP has acquired latest machines and is using them in a training program and for job work as well. A complete list of machines and their usage is given in Appendix E.

### *5.2.7 Design*

Design and style are not the main consideration for this cluster as the product is not fashion sensitive and, to that extent, orders do not depend on it. Exporters do not stress on innovation too because saddlery products are considered to be stable. In most of the cases, the buyers supply the design to the exporters, who ask their labor to copy it. Since the labor is contractual in nature and keeps moving between firms, it

can carry product information easily from one exporter to other. However, as the orders are not design sensitive, exporters are not overly worried about this practice. Another way to know about latest designs is through trade-fairs, where all the products are on display and ideas can be taken from there.

Foreign buyers introduce the product changes and gradually the whole cluster follows it up. Buyers can send a sample to various manufacturers and finally may give the order to whom they think can make the goods for lower price. So exporters are basically competing with each other on the basis of price.

A few of the changes made by labor can go wrong, because many of them do not have a good idea of how the end product is used. To take an example, for closing of the *panel* on a saddle some manufacturers found an easier way of doing it by stitching a seam along the top edge of each side of the *panel*. However, since it comes in direct contact with the horse's back, the seams would cause maximum discomfort to the horse. Though this method made the job of person doing stitching easy, it was not appropriate for the end-use and had to be discontinued.

#### **5.2.8 Work Areas**

The firms operate from rented premises scattered all over the city, mostly old and large houses. The place can be in a crowded area of the market or in a relatively quiet residential area. Many of them operate from a posh residential locality called 'Civil Lines'. Here the owner's home and the work area are located in the same compound. Another cluster of firms operate from a place called Jajmau, which is an industrial

area and has a large number of tanning and other leather related firms like chemicals, etc., apart from the saddlery firms

One factory in the residential area, where I could take a tour, was a four-story building with big spacious rooms and proper ventilation. The basement was used as a storeroom and cutting unit combined. After cutting the leather was sent to various floors. On the first and second floors accessories like bridle harness, girths, etc. were made. Saddles were made on the third floor and quilts on the fourth. Packaging again was done at the ground floor and then the goods moved out of the premises. All the rooms were bright, had a lot of fans and a few coolers too. But air conditioning was only in manager's room. There are a few other factories that resemble this one. The only machines in view were stitching machines and the work was done sitting on the floor. One factor contributing to the poor finish of the product is said to be doing of work on floor rather than a table. When a group of workers complete a process they leave the material on the floor in a pile. People passing through might stamp it. The next group that has to work on it may drag it to the station and the pieces at the bottom of the pile can get damaged or at least scratched.

Another factory operates from a large single room of an old and crumbling building. But as it is located on prime land, the owner was paying high rent for it. The room had many fans and around 20 people were working there at the time. The ventilation was poor and so was the lighting. The workers were making *halters*. They were sitting in four different groups and working on the *floor*. The owner told that water comes inside this room in rainy season.

For many factories, in the industrial area of Jajmau, the look from outside is often similar. Firms are located inside walled fences and the gate has a security guard, with no signboard of any kind to indicate its name. But outside the premises one or two (at times even more) large, new and expensive cars are parked. These cars seemed quite incongruous with their surroundings.

### ***5.2.9 Specialized Institutions***

Kanpur city has a few institutions dedicated to the leather industry, like Central Leather Research Institute (CLRI), National Leather Development Program (NLDP) and Council for Leather Exports (CLE). Harcourt Butler Technology Institute (HBTI) and Indian Institute of Technology, Kanpur (IIT-Kanpur) are two engineering institutes in the city. The first three are dedicated to leather industry and NLDP has special program for saddlery industry. The activities of these institutes will be taken in detail later under 'role of institutions' in section 6.8. HBTI has a leather technology department but entrepreneurs feel it is more on paper and has no substance or any real use to the industry. IIT-Kanpur is considered to be one of the best engineering colleges in the country and it is a <sup>coincidence</sup> that it is located in this city. There are seven other campuses of IIT throughout the country. For making of plastic moulds for saddletree, industry representatives and NLDP have worked with IIT-Kanpur.

## **5.3 FOREIGN MARKETS**

Saddlery is produced in Kanpur for export. It has very little, if any, domestic market. The main foreign markets are in Europe and America. Some of it is exported to Middle East, Australia and New Zealand too. In Europe it is exported to many

countries, like Denmark, Sweden, France, UK, Portugal, Austria, etc. The foreign buyers can be large exporting firms, catalogue-selling firms, and large retail houses, who own chain shops or sometimes even small retailers. Horse riding is quite common in western countries and the final buyers, for Indian saddlery, are common people or race clubs that promote riding as a hobby.

### *5.3.1 Market Segment*

The goods sold from Kanpur are unbranded and are also not stamped 'Made in India'. Building brand name is considered an expensive affair and the exporters say, at this stage they cannot afford it. There are a few firms in Kanpur that are selling to the middle range of the foreign market. Those who sell in this market are considered to be the better-off segment of Kanpur saddlery cluster. There are reputed trade houses and manufacturers abroad, who buy goods in India and sell them under their own brand name. One such line is Norton brand of saddles that are made locally and sold by a France based trading company UKAL. These saddles carry a three-year guarantee. There are others who sell to the lower end of the market at very low prices and where they try to make profits from volume sold. Both type of producers exist and exporters estimated that 30% of the firms are selling in middle segment and 70% selling in the lower segment.

Earlier, saddles were sold mainly to the large distributors, both in middle or lower range and from there the saddles used to reach retailers. But in the recent years some exporters from Kanpur have started selling directly to retailers in small quantities. Because the quantities are low, the profit margins are high on such transactions. In



such deals the exporter has to go to the place of the retailer in order to sell the goods, the retailers are not interested in coming to Kanpur. In recent times, large mail catalogue firms and shop chains have become big buyers from Kanpur.

The saddles, particularly racing saddles, can command very high price in the world markets. However, there is a large population that does riding for pleasure or for farm work and may not be willing to use very high-end saddles. The Indian saddles have been targeted at this population. An exporter E2<sup>2</sup> explained that *in the initial days of this cluster, saddlery was very expensive abroad. So when Indians entered the trade, they were able to get a niche in the lower to middle range saddlery. This filled a gap in the foreign market and the prices of the riding schools came down. As riding is very popular with girls and kids abroad and they didn't need high quality saddle, for a while Indian saddlery had it good.*

Exporter E3 mentioned that making top quality saddlery is a time consuming and expensive affair and offered a comparison of work practices in Kanpur with the most famous center for making saddlery in the world, Walsall, UK. *(o)ur Radheshyam will just see how to push pieces out in minimum time and they in UK will look after every stitch and see that it is perfect. But then they charge 9 pounds an hour and we may be paying Radheshyam 9 pounds for the whole lot.*

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<sup>2</sup> While reporting our data, we have denoted exporters as E1, E2, etc. Manager of exporting firms have been called MFE and manager of leather firm, MFL. Leather, metal and textile suppliers are denoted as LS, MS and TS. LD is a leather dealer. Job worker is identified as JW and members of institutions as MI1, MI2, etc.

*orders are not placed at SPOGA directly, but exporters are expected to follow up the orders after the fair My main market is Europe and earlier people from Kanpur used to visit Europe twice a year for orders but now they visit more, the number of firms has gone up and competition has become intense* He had a photograph on his table, and it looked like a foreign country, he said it was Austria and the place was a far off village actually He had gone there to deal with a small retailer He said that the trips were difficult They had to carry various samples and they weighed a lot

Exporter E7 agreed that orders were not given directly by buyers in SPOGA these days He explained that many people who were unable to sell to wholesale buyers were selling to retailers directly at Cologne To counter this practice the wholesalers were not giving orders at the fair but the exporters were supposed to contact the buyers after it Earlier, based on the samples, the buyers used to place the orders at the trade-fair itself Exporter E11 explained that *SPOGA trade fair serves a means for making contacts and not getting orders then and there We have to follow up the contacts by visits and then orders materialize* Many exporters take individual stalls at the fair and each person books it according to the price and size he wants *It is not like having an Indian pavilion*, said exporter E18, *in some remote corner and all the Indians are clubbed there One can book the stalls one wants*

A few exporters visit SPOGA but may not take a stall Exporter E2 explained that he had been going to SPOGA for the last 18 years but never took a stall, earlier going there meant that he could meet all his buyers at one place He started taking a stall only after his other family members came and joined his business But he mentioned,

now a days SPOGA was not generating too many orders but it was more of a place to keep contact with all his existing buyers

Agents working for an exporter can at times be family members residing abroad Exporter E18 worked through family members, who lived abroad, working as agents for him to help generate orders But there are firms working as agents to exporters from various countries According to exporter E3, he generated export orders through a person from Denmark, who was his agent in Europe This agent was working with someone in Kanpur before but that Kanpur exporter has become very big and goes alone in the foreign markets now So the Danish agent was on a lookout for some new exporters to do business in Kanpur He came to Kanpur and visited a few factories Finally E3's firm was able to get the contract In SPOGA E3 exhibits from the agents' stall along with his other clients

### 5.3.3 Buyer Trust

Though the present research was not directly concerned with the relations between exporters and their buyers and the primary focus was on local ties, still we have documented what exporters reported about their relationship with buyers

- Exporter E6 said he had no written contract with his buyers and they had a stable relationship He added *We work on credit If a certain product is not selling, in the foreign market, my distributors call me back and say that we need to talk this out and would suggest to have another look at price or to make minor quality changes, which may relate to the look of the product*

- When asked about his relationships, Exporter E18 said he need to trust his buyers more than the local suppliers Having trust *means my buyer is not going to vanish once he gets the goods, that he will pay up timely, a delay of a few days is ok any time That doesn't count but it takes some time to be sure of any buyer and for me it takes normally two years before I start trusting a foreign buyer*
- Exporter E14 who has been in leather business for more than 30 years, explained *These days we don't operate on LOC (letter of credit) but only on COD (cash against documents) All I have is an order and if the buyer doesn't pay I will be in deep trouble That is why it is necessary to have trust on a buyer*
- Exporter E2 said *my customers are long-term and they have been with me for many years Many of them will not go because they are happy with my work Still many others will not go because they were initially not happy with me But after working for 3 years or more, they are comfortable with me So now they don't want to work with a new person and repeat the cycle*
- E7 is a large exporter of saddlery and also supplies metal fittings to saddlery industry He said initially a foreign buyer might give him a small order, of say a lakh of rupees and may keep giving such orders for a year If he was able to meet it successfully he could graduate to big orders He said now he had orders up to the mark of Rs 1 crore from a single buyer He exported just to one buyer in each country His buyer relations were stable now

- Buyers may encourage exporters to work for product up-gradation Exporter E12 told about a buyer in Belgium who was willing to give them better technology, but he felt if he trained his workers they would go to others with the same and he might not be able to recoup his investment (see section 5.4.2 for a detailed discussion) But still in two or three years time he would like to try it out

There were, however, many exporters who felt that to retain a buyer was the toughest part of doing business Buyers switched firms over price and retaining them was difficult

## 5.4 LABOR

According to the estimate of NLDP, the saddlery cluster provides employment to over 15,000 skilled workers directly and to the same number indirectly, i.e., those involved in leather tanning and finishing of harness leather and manufacturing of saddletrees, metal fittings, etc As mentioned before, most of the labor hired is on contract basis, wages are based on piece rate, and workers live in large numbers in certain localities Since workers move among firms, they carry information about the factory they have worked with previously Workers pass on the skills among themselves and there is certain amount of labor poaching going on in this cluster

### 5.4.1 Contracting System

Saddlery making is heavily dependent on skilled labor in Kanpur There are just a few permanent employees in any given firm Mostly these employees have supervisory

role to perform or they deal with paper work related to exports, etc. The actual production of saddlery is done by contractual labor. They are not permanent employees of the firm. The head contractor of a labor gang, simply called a contractor in the industry language, may be permanent employee in a few cases. The labor is hired only when there is work with a firm. Labor is organized in gang of five to six people working on different products like making saddles, harness, bridles, etc.

Contractor is the person who gets into an agreement with the exporting firm, on the basis of certain terms and conditions, for the order that is to be executed. For example, manager of a firm MFE1 told, they had 20 managerial staff but the contractors did all the manufacturing, working exclusively for them on the premises of the firm. It was the exporting firm's responsibility of making available material and machines for production to the contractors. This firm employed 20 contractors and each group had five or six workers. Five groups made saddles, five harnesses, five bridles and five other accessories. They paid only to the contractors and the contractors in turn paid wages to their labor.

Many contractors and the labor in the gang might belong to the same family, so that the money paid remained within the family. The position of a contractor is what workers can aspire to be after working for around ten years. Most workers do not end up opening their own factories probably because they are not adequately educated. Those contractors who have gone into exporting have done it through their sons, who are educated and can handle the export side of the operations.

Exporters who have work round the year could retain certain contractors for very long. In many instances the duration can be longer than ten years. The producers are keen to retain such contractors and may hire additional ones if the volume of their work increases and let go of those groups when extra work has been done. This coming and going of workers is not haphazard in case of many firms. Exporters keep track of their workers with the help of contractors or other employees, whose job is to bring these workers back once there is sufficient work again. The workers too stay in touch with the firms and keep asking them if any new work has come. Producers are interested in hiring the same people again as they have some understanding with the workers and they do not have to start from the beginning every time around. The workers live in certain localities and they can be contacted there for the purpose of hiring.

Exporter E2 said that if he needed additional workers, he would ask one of his employees to locate them. They lived in particular communities and his employees knew where to look for them. Exporter E13 explained *though my workers are contractual in nature, I would still like to retain them as long as I have work. We have developed an understanding with each other. If I rotate them at will, I have to start anew every time and that is not in my interest.* Exporter E17 was of the view that it was not easy to replace the contractors, and if someone else offered them a higher price he too would match them. Though some of them he might let go. As his firm offered work round the year, people stayed with him.

Exporter E16 said *I try my best that there should be orders round the year so that my skilled workers don't go anywhere But if orders are not there I still pay some of them and keep them with me A few have been with me for 8 years* Exporter E18 explained *If I have year round work and if I am a good paymaster and earn well for myself, why will my workers go? They develop a loyalty Of course if someone still wants to go I can do nothing to prevent it He will go*

Exporter E11 employed around 50 people, but only five were on payroll rest were contractual workers His firm had work round the year, so his workers had been with him for a very long time Some of them were there since he took over from his father, around 15 years back MFE1 said in his firm some of the contractors were with the firm from 1977, many of them were old, only a few of them entirely new They worked exclusively for this firm and '*lagav hai thekedaron se*' (he has affection for the subcontractors) Exporter E15 said *When work is slack I will ask him to make samples or simply pay him and keep him with me But when new work comes in he will see to it that people are brought in to do it It is his job*

Exporter E6 explained that at any time the demand for a particular product might be low, so the workers from his factory would go to some other place where there was work But if he got an order for the same product again he could get back those workers They would come if they were free His workers had been with him for the last 20 years, many of them worked with his father And sons of these people again joined his firm Apart from good wages round the year, work was another factor that



kept workers with him. When asked how did he search for the workers again, he said that people working for him would get in touch with them on his behalf.

Contractors have some bargaining power with exporters because they do skilled work. MI4 explained, when the exporter gets a sample, he will go to the '*masterji*' (contractor), *k1 masterj1 ye banana hai*, and *masterj1* might say- *nahin j1 ye to hamse nahin banega*. Then the exporter will be in trouble and say *aare masterj1 jara dekh lijiye, acha kuch din k1 chutti ke baad dekh lijiye* (Master *ji*<sup>3</sup> we have to make these goods, and the contractor might say- No I don't think I can make this one please Master *j1* have a look, take a few days off and then have a look).

E15 introduced me to a worker, who makes 'paragon' saddles and mentioned that *(h)e is the most skilled person for making those saddles. I want to brand these saddles as 'Prakash' saddles if the buyers agree to it*. The worker is a young guy, maybe 19 or 20 years old, certainly not over 25. I asked him where did he learn to make such good saddles he said *Meine International mein sikha hai, fir mein kaam kiya hai, per sikha to saabh ke sath hai* (I have learnt it at International, then I worked at , but I have learnt it with Mr only).

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<sup>3</sup> *Ji* is a suffix used to show respect after a person's name in Hindi.

#### 5.4.2 Information Dispersal

Since workers move from factory to factory, they take the knowledge of products with them to the new firms. Exporter E2 explained that when workers shifted, they shared information of their previous employers. Also, if they learnt something new, they could make it at other factory. Exporter E1 added *labor can and does move with product designs and it is an accepted fact of doing business. If a labor has seen a new product he will make it for me but when my order is over he will make it for others too*

Exporter E16 mentioned that *My labor can pass information about my products, rather copy my products for someone else but this does not bother me*. He said buyers at times remark in SPOGA that *(a)re the products made in one factory in Kanpur? A worker might work at night with some other exporter. Or he may say he is ill and cannot come for two days and in the meantime work for someone else passing my design. It is very difficult to track it and it is not worth it*

Exporters were not overly worried about labor changing firms. According to leather supplier LS1 buyer information in export firms was guarded most closely. Only the owner and the accountant and the like would know it and not the workers or the supervisors, so that they could not pass it on when they moved.

#### 5.4.3 Wages

Workers are paid on piece rate. Certain skills like *flocking* or *lacing* will command higher rates and cutting of leather or coloring the edges of leather are the lowest paid

jobs Exporter E1 explained how wages are settled *every exporter has three grades and pays accordingly, the wages are negotiated before the work is done on the basis of the sample made by the worker The wages also depend on how well the work is done apart from the difficulty level of the work*

Estimates vary on what workers are actually paid but the sentiment was that cheap labor is competitive advantage of the cluster, since labor was in oversupply, one could afford to pay less Though the availability of labor is relative to the volume of orders at a given time, there may be a time when the export orders are less and labor in excess At such a time many people visit factories, but there are times when the labor is so much in demand that it is difficult to find them Women workers are employed only in a few factories

It was difficult to know exactly what wages were paid but the exporters gave their estimates Exporter E6 paid on an average Rs 200 for a day's work even to a worker who was just cutting the leather He said that since they operated in the middle market segment, they could pay the labor reasonably He could willingly take them on his payroll, but the workers were highly skilled and did not want to work any other way According to him *it is difficult to figure out why, but once the worker is paid on Saturday he may not work from Monday till he is in need of money again* Those who work for the lower end of the international markets may pay labor less to keep the costs down Another exporter E5 said a worker might be making 100 rupees a day Rates also varied from factory to factory If certain item was paid at Rs 35, by and large chances were that it would range from Rs 30 to 40 He felt that even if someone

new paid a bit higher initially, he might not have work year round and then workers reverted to factories that had work. According to exporter E13, a worker might be making 3000 rupees per month. But many of them made more as they belonged to one family and worked as a group. Exporter E16 put it at 6000 to 7000 rupees a month for a contractor and a worker Rs 2000 to 3000. When I remarked that Rs 2000 to 3000 must not be comfortable, he said those were young people and mostly from the same family.

#### *5.4.4 Living in a Locality*

Workers train other workers. They live in many localities in and around Kanpur. A few of the areas are Shuklaganj, Jajmau, Colonelganj, Mirpur, Nawabganj, Byavar, Kidwai Nagar and Unnao.

#### *5.4.5 Training*

There were no formal avenues for formal training of labor till recently. A new effort in this direction has been launched by the combined efforts of the industry and NLDP but it is still in its initial stages. Traditionally, workers have been taking young boys as apprentice in their gangs and teach them the skills. These young boys are called helpers or assistant and they can start learning as early as the age of around twelve. Helpers start with easier tasks and within five years they can learn the most complex processes. Initially they earn less money but as they keep acquiring greater skills, wages increase. People taken as helper may belong to the same family or locality. There was a concern among a few exporters about the issue of child labor but they

also felt if a person did not start learning at a young age, he might not become a skilled worker

Exporter E2 explained *the senior contractor will train kids and they then graduate to full-time contractors. Earlier the skills used to be passed within the community but not any longer so. Contractors train people so that they can get away by paying low wages, but in the long run these people learn and the ranks of the skilled workers have swelled.* Another way to acquire skills, explained exporter E18, was to have worked for decent firms where a worker got to learn the small technicalities that mattered a lot into making of the product. There were some producers who insisted on those things being observed and gave incentive for observing and if one got such a worker it was an asset, according to him.

#### **5.4.6 Labor Poaching**

Exporters agreed that people do try to take contractors from each other. Though there is no scarcity of labor, skilled contractors are much in demand and the poaching happens at the level of contractors. As exporter E8 narrated this incident about two top firms in the cluster *There is a firm international owned by Mr ABC, and another one called Saddlery, run by Mr XYZ. Mr ABC took a contractor of Mr XYZ by paying him 1 lakh of rupees. People do take away labor from each other and it is considered fair in business.* He said Mr XYZ could have made a higher offer had he wanted to retain the contractor but he let go of him. If the exporter really wanted the contractor, he would pay sufficient money to him or match the bid. What was at

stake was the skills of the contractor. According to exporter E8, people feel that Mr ABC was able to take a very good hand of Mr XYZ.

According to E1, in another case again involving Mr ABC's firm, they lost a contractor to exporter E7 this time. E7 took away a contractor of Mr ABC. Since Mr ABC was a powerful man he got that contractor back to his premise and locked him in. Still the contractor refused to work for him and in the end he went on to work with E7. Mr E7 took him away by giving him higher pay and a place to live. Exporter E14 narrated the following incident: *As usual someone took my contractor, got my samples copied and quoted a lower price to my buyers. It was a big setback for me, it happened around three years back. Though I execute on an average one order a month, have work round the year and even if I offer the workers permanent employment, if they are offered more money or some extra facility they will switch firms. Agar kisi ne lalach diya to chale hi jaate hain* (If someone gives them a little bit more they will go).

According to exporter E18 not much could be done about it, and said: *it is our own ethics that can make us refrain from doing so. I cannot do anything if someone takes my labor. All I can do is to refrain from such a thing myself. If one takes contractor from one exporter, it is considered bad and those two people, one can be sure, are not going to forget it.*

From the above discussion it can be seen that making saddlery is a labor-intensive work and skilled labor has a lot to offer to an exporting firm. Labor practices in this

cluster certainly do not seem to confirm to the 'high end' employment practices associated with IDs

## 5.5 JOB WORKERS

The established exporters prefer to get all the work done on their premises by contractors. But smaller exporters do pass on part of their orders to job workers. The job workers in this cluster mostly do not have registered firms and work from home. This arrangement can work in two ways. The exporter can give all the material to job worker and agree upon a price beforehand to be paid to him once the work is complete. On the other hand the job worker may in many cases buy the required material and enter into a price agreement with the exporter. The exporters use job workers because they cannot make everything themselves, as saddlery includes a large range of products. Many exporters do this to keep the cost of production down for the exported products. The deal is only to make the product and the final right of delivery and payment is with the firm who initiated work with the foreign buyers. The smaller firms reported to be giving only around 20% of the work to job workers. Here also exporters talked about a relationship that was long term.

A job worker, JW1 told the following *I work with many people. There is no legal agreement between the exporters I work for and me. I have been with a few of them for many years. If an exporter has once given an order, I feel my money is safe. There is no one who has gone back on his word till date. So not having a contract is not an issue. There are around 50 job workers and around 100 firms who use job workers.*

*But once a firm reaches a critical size they prefer to have people work on their premises I on the other hand prefer to work on my own premises*

Exporter E11 worked with job workers, and he explained *Job workers work from their houses and have a group of labor, mostly family or extended family They execute orders that are given to them by exporters at their own premises and not on exporters premises The work arrangement can be in both ways either the exporter gives them material and they execute it or the job worker makes the product and gets paid on its basis I know my job workers for years The relationship is quite satisfactory and the job workers are capable of making things as per specification*

In exporter E16's firm, around 80% of the work was done on the premises and 20% from job workers He said that *the job workers are unregistered units and there are around 50 of them They are small and not literate in many cases Those who are or if they educated their sons they have got into export themselves, the number though is not large My job workers have been with me for long But to give work initially I ask them to make a sample and then only will give them some work I at times ship the goods from my job workers directly to my exporters but I have made it clear to them that if a complaint comes from the buyer about their goods, they will have to do corrective work*

According to E5, as saddlery range was really big, he could not manufacture all of it He explained *if I get an order, which is big, or for some textile items in particular, I can get it done on job work The job work units are not registered They are really small, say one room and five people working, who may belong to the same family*



*They come to exporters for work rather than the other way round. These people work in interiors and I am not aware of the location of many people. I do not give materials to my job workers. We have just a price agreement. If I don't like the material I am free to reject it. But I have been working with a single person for a very long time. If the initial two to three dealings go well, I work with the same person.*

E12 got 20% of the goods produced in house and 80% was given out on job work. He knew his job workers for quite some time and though a few were new, they were referred by someone known to him. He explained *these people work on their own premises but I give all the raw materials to them. We beforehand decide the amount and cost of the work done so as to avoid misunderstandings later. The other day there was a piece of nylon short in length than required, for every piece I got from my supplier. My job worker alerted me to it. I then called my supplier and asked for a rebate or to take the goods back. He took it back and supplied us new ones. On the other hand my workers may not have bothered with the details, as the cost will not be reflected on them. I can keep the costs down by working through subcontractors.*

To sum up, in the cluster many of the larger and established exporters reported that they do not share orders with job workers. Instead they preferred that a labor gang work from their premise. However, other smaller exporters reported sharing their orders and having a stable relationship with job workers. We decided to include this section in background information because of the small number of exporters that reported using this arrangement.

## 5.6 CONCLUSION

In this chapter, the background information related to Kanpur saddlery cluster has been discussed according to the characteristics associated with IDs/SFCs. The cluster has a geographical concentration of small firms and important suppliers (leather, metal fittings and tree makers). Saddlery production is primarily for exports, but attitude towards labor in this cluster, confirms to the 'low road' at this point of time. Institutions such as NLDP, CLE and CRLI are playing an important role in this cluster. Practices related to trust and co-operation in the context of exporter-supplier relations, horizontal relations among exporters, and role of institutions are explored in the next chapter.

## **CHAPTER 6**

### **TRUST AND CO-OPERATION IN KANPUR SADDLERY CLUSTER**

#### **6.1 INTRODUCTION**

Literature on IDs and SFCs suggest that producer-supplier relations tend to be co-operative and trust-based in clusters. In this chapter we turn our attention to the nature of trust and co-operation in the saddlery cluster of Kanpur. Section 6.2 documents the evidence of trust in producer-supplier relations. Section 6.3 details the development of the relationship. Nature of inter-community ties is explored in section 6.4. Section 6.5 discusses the various co-operative practices in producer-supplier relations. The horizontal ties among producers are detailed in section 6.6. Section 6.7 deals with the functioning of business associations. Finally, Section 6.8 deals with the role of institutions and collective projects in the cluster.

#### **6.2 PRODUCER-SUPPLIER RELATIONS**

Producer-supplier relations are important as there is virtually no vertical integration and the exporting firms buy almost all their supplies from outside. Three suppliers are considered critical to the well functioning of a firm and they are leather, metal and

tree suppliers. Figure 6.1 depicts the important inter-firm relations in the cluster. The issue of exporter-supplier relation is taken in detail below.

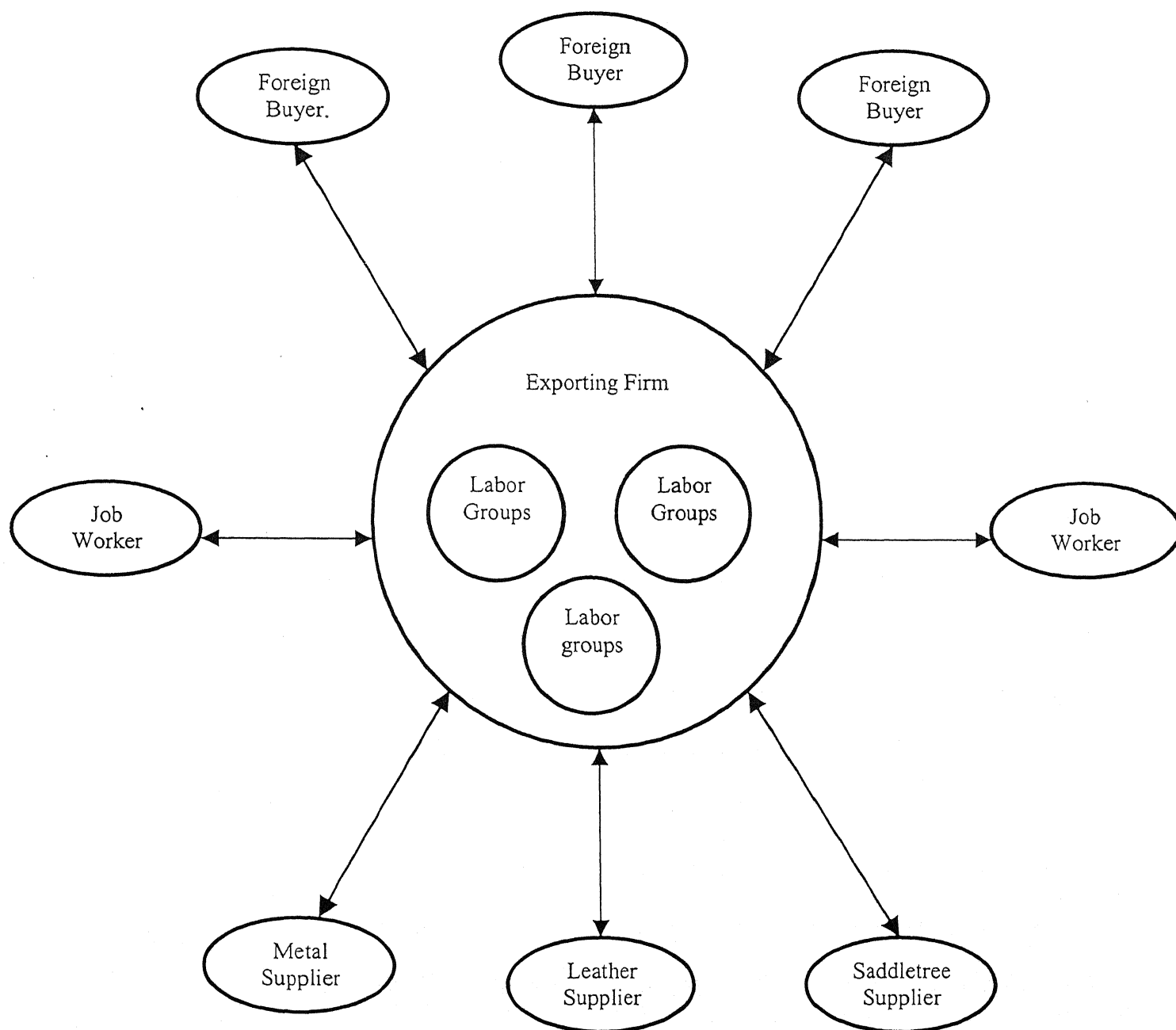
### ***6.2.1 No Written Contracts and Reliance on Trust***

The cluster speaks in one voice as far as the issue of written contracts is concerned. There is no use of written contracts anywhere in the supplier-producer relations, or for that matter, even in the dealings with labor or job workers. The only written document is the order-form, and even then adjustment in orders is possible if the circumstances demand it. There were no court cases that were quoted to me that involved local parties.

According to exporter E17, he had no written contracts with any of his suppliers and relied more on the words of the people. He had an experience with a large firm in a different business where those people always arrived with loads of documents. He felt all that was not necessary for doing business. Another exporter E4 said that they relied on mutual understanding to run the relationship. He said *we are small people and we have never taken anyone to court over any matter, nor do we have any written contracts with suppliers*. Several other exporters expressed similar sentiments. Exporter E18 extended the non-existence of legally binding contracts even to the buyers: *there are no lawyers involved and nothing is done like drawing up of a contract with their help and then both the parties signing them. We don't work like this even with our buyers, let alone local suppliers*.

We don't have written contracts not only with our suppliers but also with our buyers, explained exporter E6. He said that *the relationship works on the spoken words. They*

**FIGURE 6.1 INTER-FIRM RELATIONS IN KANPUR  
SADDLERY CLUSTER**



*carry a lot of weight* When asked if he uses any written contracts, Exporter E3 said no and the relationship is *taken on trust* Exporter E15 mentioned Written contracts are unnecessary because whoever wants to remain in business is not going to risk his business because of my amount E7 said that in his firm *there are no written contracts with any suppliers Things work on mutual understanding and I never felt a need for a contract* According to exporter E1 the advantage of working with the same people is that they know what is expected On the other hand a new person has to be taught everything again *There is no contractual obligation with my supplier It is mutual understanding that pulls the relationship* According to E8 *the only written contract is order form and the relationship runs on 'bharosa' (confidence)* E11 operates without any legal contracts with his suppliers and when asked what governs the relationship in its place he said *it is a matter of faith*

In turn suppliers too expressed a similar lack of concern for contracts in their relationships A metal supplier MS1 was of the view that *to be successful I require to foster relationships and not contracts Contracts are not needed as one has 'vishwas' (faith) on each other and no one runs away with other's money* A leather supplier LS2 sold leather directly to twelve firms and one leather dealer Yet he had nothing in writing with any one of them Manager of one of the largest leather firms in the city, MFL1, said *we use no legal contracts anywhere and the whole thing runs on believing each other If I say something my buyers believe me and if they say something I will believe them* According to a textile materials supplier TS1, their firm had no legal contracts and they relied on trust He said *if a person is well known it is easy to trust him but even if he is not known a minimum amount of trust is to be*

*kept* Leather supplier LS1 said that they had no legal contracts with any of the parties and the thing worked on *vishwas* (faith) No one runs away with others money Leather dealer LD1 said that giving credit was always a risk but they developed faith on each other, and there was no need for contracts Whoever wanted to stay in business was not going to run away with others money

Not only is there no need for the contract in this cluster, when asked how in the absence of contracts the whole thing functioned, as can be seen from the above discussion, the response was invariably made in terms of ‘mutual understanding’, ‘faith’, ‘spoken word’, ‘word of the supplier and their own’, ‘relationships’, ‘vishwas’, ‘trust’, ‘aitbar’ etc Exporters and suppliers talked about various co-operative practices and that discussion is taken up in section 6.4 In spite of using different words to define their relationship, the process that entrepreneurs described for development of trust relations is remarkably similar and is discussed in the next section

### 6.3 DEVELOPMENT OF THE RELATIONSHIP

Both the exporters and the suppliers reported that it took time to develop trust and the initial interaction is marked with caution The relation may start due to a first business dealing Entrepreneurs reported trust to be a property of long-term relationships

#### *6.3.1 Small Orders and Caution*

Most relationships seem to start on a cautious note and small orders Exporters say they want to work with a person with whom they are familiar When new work is

initiated the size of the order is small. As exporter E1 mentioned, he would not give a large order to a new person as he had no idea how the supplier would handle it. Only when he had worked with a person for some time did he increase the size of the order. Exporter E17 said *leather and tree are critical supplies. For these two components I rely on one supplier and they have been with me for many years. The relationship develops gradually. I give short orders in the beginning. If I am satisfied it will lead to a second order, which will be slightly bigger than the first. If the quality is consistent, delivery made on time the business will continue. After such a process it may turn out that the same person may become a key player over the years.*

Exporter E3 explained *once we start working with a person it becomes relationship. It starts slowly but if the initial orders are met, the size becomes larger and larger and it becomes stabilized after a point. But we keep meeting new suppliers too. If they quote a lower price I will ask my supplier. But if we try a new person we give small orders, and with time trust comes in.*

According to the manager of one of the largest saddlery firms in Kanpur, MFE2, *time itself makes it obvious, which firms can be relied upon and which can't.* Another exporter E2, who has been in the business for more than twenty years, said that relationships grow gradually. *If expectations on both the sides are met, the initial small orders can get big. Also in a mature relationship I can expect certain concessions.* Exporter E6 echoed similar view by saying *I give new people small orders. If it works well then the order size increases, also I do quality checks with new suppliers and I can be lax about it in an established relationship.* Exporter E7



detailed the following process for selecting a new supplier. He said that if a new person came to him for work he would ask him to make a sample. Initially he gave only 10 to 15 pieces to work on. If this turned out to be satisfactory he did more work with the same firm. Exporter E14 also said that people who were new to him got small orders. This was particularly so if they were leather suppliers as the quality could differ a lot from one supplier to another. Exporter E16 was of the view that *large order does not come at first, if a person is new I will ask for a sample and then give small orders. After all I too get small orders from my buyers in the beginning*

Exporter E13, who has been in the business for nearly ten years, said *I can have an intuitive feeling if things are going to work out by 3 or 4 dealings. I like to see the factory of the supplier and that gives me an idea if things are going to work out*. E5 said he could decide after two or three dealings whether he could have 'faith' on a person or not. Even while talking to the person it could be made out if he is to be trusted or not. But it was only after two or three interactions that he could make it out for sure.

### ***6.3.2 Lack of Credit Early in the Relationship***

As a ~~result~~ <sup>measure</sup> of caution not only exporters gave small orders in the beginning but suppliers also wanted to do business on the basis of cash only. Credit was not available early in the relationship in most of the cases. Even if credit was offered initially the amount would be small. A leather supplier LS1 said that for first time customers or fairly new customers he did business on cash payment only. According to him *only after sufficient interaction I can have a good idea about the paying*

*capacity of the clients and then only credit is offered* Leather supplier LS2 too mentioned that credit was not available to first time buyers. It took almost a year for them to offer someone credit.

If he had to meet a new person, metal supplier MS1 explained, he called the person on phone and fixed an appointment with him to discuss his products. He was willing to try new people and was not bothered about reputation but would start with a small order. He explained *credit is extended to every exporter, even a new one. That is the way metal suppliers work. But with a new exporter I will do business worth only Rs 10,000 or so. On the other hand my important exporters can give me business worth Rs 2 to 3 lakhs. A business can grow from the initial Rs 10,000, but it can take anywhere from one to two years.*

Leather dealer LD1 explained that his whole business operated on credit. He mentioned *I get 15 days credit from the tannery, and I give 60 to 90 days credit to my buyers. The exporters too offer credit to their buyers for 60 to 90 days. Giving credit is always a risk but we have to develop faith on each other, and there is no need for contracts. Whoever wants to stay in business is not going to run away with other's money.*

Exporter E3 said that credit was not available to everyone in the beginning but after a while *if the payments are reasonable no supplier even bothers to ask when you are paying up, they know they will get their money.* Credit may be available only when people have interacted, have a history of satisfactory payments and they know each other. As exporter E8 said, he bought everything from suppliers located in Kanpur

He was of the view that credit was not available to all. According to him *if you go to the tannery for the first time they will say they don't know you, so the deal is to be done on cash basis. But as people work with each other and come to know about each other, credit becomes available, it also depends upon the goodwill you have created in the market.*

Exporter E18 explained that a supplier was placing trust on him by giving him credit because it was for the exporter to pay the supplier on time. He was of the view that credit certainly was not available to newcomers in the market. According to exporter E16 *credit is not available first. I myself did not get credit in the first place but if I can earn goodwill I will get credit. If you go to a tannery for the first time, you can be told that since we don't know you the dealing is to be done on cash basis.*

So exporters start with small orders and move only if the first series of interactions are satisfactory. Suppliers are not willing to give credit early in the relationship. It is only after interacting for sometime with each other that entrepreneurs become comfortable and seem to develop trust.

### ***6.3.3 Third Party Referral and Role of Reputation***

A few exporters in the cluster reported that they would go by the reputation of a supplier in the first few dealings. However, reputation in this cluster is not defined through market indices like trade magazines, firm ratings, etc. No such source of information is available. Reputation is carried by word of mouth and has more weight when conveyed by a known person. When exporter E15 was asked as to how he started with a particular supplier, he said *I go by reputation.* But by reputation he did

not mean market indices as it was commonly agreed upon that there was no such formal source of it. The process of finding a new supplier for this exporter was *no it is by word of mouth. I will ask a supplier who is the right person to buy it from? Otherwise I will ask some person whom I know in the same market but he does not make the same thing. But I cannot go only by reputation alone, I have to work with the person himself and if the first few dealings go on well, only then I relax and trust the person.*

Exporter E11 said *I am not willing to go very far on reputation. With a new supplier I will ask for a sample of the goods I want and will initially give a small order. Initial order for leather supply is also small. I want to be sure of the thing I am getting. Only after a few dealings the size of the order increases. I will like to know a person and I am not very sure how far I will go on reputation alone.* Exporter E8 too was not willing to go by reputation. *It is not reputation, I have to know a person, mostly suppliers contact us, and if I have any doubt I will ask for a sample made. If satisfied, I will do business with him.*

In the course of one visit, when I was talking with exporter E10, a person came and introduced himself as a leather supplier and said that he could supply such and such range. E10 said that he did not work with those goods. After he went away, the exporter explained *I have not heard of this person ever before and I am not interested in working with an unknown person. Kanpur is a small place and I am bound to know almost all the suppliers. I do not know the person at all so I am not interested in doing business with him.*

Reputations form through word of mouth as E17 explained *people spread stories about each other. When asked to elaborate, he said people are free to tell each other about their business experiences. Suppliers can say to other exporters and among them that some people are quite unnecessarily stopping payments and if true they will get a reputation for it. Also if a supplier delays his goods, that too will become known and such reputations carry by the word of mouth.*

One exporter mentioned that he relied on others for information about new suppliers. Exporter E12 explained *I do not work with new people. When I was new I found my suppliers by trial and error. But now I know people to whom I will go if I want something new. One such person is bhai (Brother), who buys metal fittings from Aligarh and supplies in Kanpur. There are other such traders who can give information from where to buy or which contractor to use.*

#### **6.3.4 Continuation of Old Relationships**

There is yet another way for a trust relationship to function and that is of continuing old business ties. A few exporters and suppliers said that they were dealing with the same suppliers who were with their fathers or that they knew the people when they were working in a related line of business. Exporter E6 and E14, both second-generation exporters, continued to work with suppliers who were with their fathers. On the other hand E7 was a saddlery exporter but used to earlier work as a metal supplier to the saddlery industry. He still has both the businesses. He knew his leather supplier because of his earlier contacts in the industry as a metal supplier. MFL1's firm sold leather through a dealer in various cities and they report no contracts with

anyone of them. He explained *we have only one dealer in one city, though we have dealers in many cities*. When asked how the dealers were chosen, he said *it happened way back and they are still the same people*.

### 6.3.5 Long Term Relationship

Business people talk of trust in relation to their counterparts, with whom they have interacted for a long time. This time frame may differ from person to person, but it was put from anywhere between three to four meetings, to one year upwards. Exporters and suppliers were both of the view that trust developed only after sufficient interaction and they showed a preference for working with one person over a long period of time.

Exporter E15 bought leather and metal fittings from outside. He had been buying leather from big tanneries and they have the kind of leather he wanted in stock. He had been dealing with the same few people in this business for the last 30 years. MFE2, the manager of a large firm, said leather was the main supply procured from outside. They imported it and also bought it from local tanneries. He said that all his suppliers were of long standing. As mentioned earlier several relations might go back to two generations where fathers worked together and later sons too worked with the same people.

Exporter E14 mentioned that his suppliers have been with him for a long time *some of them have worked with my father, but others I started working with and we have known each-other for four to five years*. *If I have been taking goods, say leather, from the same person, there is a feeling of knowing each-other, knowing each others style*

*and becoming comfortable. If he says he will take a few more days to give the goods I don't worry about his behavior, like why is he saving so or such things. Leather supplier LS2 mentioned: We sell to around 12 people directly apart from LD1. They have been with this firm for quite some time. Some started buying in 1987, others in 1996. I myself came in 1996 to this firm and brought a few of my previous buyers to this place.*

Entrepreneurs considered it advantageous to work with one supplier. As exporter E1 said: *many suppliers have established clients and will work only for them till they keep getting work. Others too know it and exporters will avoid going to them for business.* The advantage of working with the same people is that they know what is expected, on the other hand a new person has to be taught everything again, explained exporter E15. According to exporter E3: *Nahin eak se hi leta hun, after a while things become stable and I don't change them. (No I buy only from one person.)* Exporter E17 said: *I never disrupt an old relation just like that. If a new type of saddle tree is offered I may consider it for a separate line of saddles but I will not leave my old suppliers and go entirely for the new thing.*

### **6.3.6 Disregard for Small Price Differentials**

Exporters do not consider small price differences as reason enough to change their suppliers. As mentioned in section 5.3.1 exporters in Kanpur sold in the middle and lower range in the foreign market. Many exporters are producing goods of low quality and their products are very price sensitive abroad. Another group made saddlery of better quality and commanded higher prices abroad. Accordingly the first group was

more sensitive to price differences of their local suppliers. The second group did not consider small differences of any consequence in case of an established supplier. Exporters E1, who belongs to the price sensitive category, explained *but we keep meeting new suppliers too. If they quote a lower price I will ask my supplier. Say I am buying something at 10 rupees and someone says they can give it to me at 7 then I will ask my supplier, and he will come down.* Exporter E14 said *I keep taking note of the prices offered and compare it with what my supplier offers. Now market is tight if I buy at 100 rupees and someone offers 96 rupees I will ask my supplier if he too can come down, mostly he does.*

On the other hand those who were relatively quality conscious reacted in a different manner. Exporter E2 said *I buy almost everything from outside. Price differentials have little meaning for me. I will not leave an established supplier. Even if the price differentials offered were too large then too I will first ask the supplier for the reason. If I feel someone is giving a lower price just to drive my existing supplier out, these kinds of things don't appeal to me. A few of my suppliers will quote a fluctuating price for some of the items but it never bothers me if they have been with me for some time.*

Exporter E11 bought leather, metal fittings, glue, thread adhesive, etc locally. He wanted to keep up a relationship with a firm. He added *if someone offers me a lower price by a few rupees I know it is because of competition. If I am paying 10 rupees for leather I know I am getting leather that is made at 9 rupees. If I buy leather at 8 rupees, he surely will give me leather of rupees 7. The only way to bring down price*



*is to bring down the cost somehow I am also in business I know this If I am satisfied with my supplier I will not change him*

Exporter E16 was of the view that *I am in business myself and I know people offer 2 to 10 rupees lower just because of competition and if established they will increase the price If the difference is of 50 to 100 rupees on a large item and 15 to 20 rupees on a small item then I think about it In that case I ask my supplier to bring his prices down and he mostly does If not then I will think of changing my supplier*

Exporter E8 said that he would not like to change supplier for a small price change and that he worked with a supplier for a long time *I know my supplier here and my buyer too is approving of the product and the material used If I change my supplier for a slightly cheaper good and my buyer doesn't like it, my buyer too is not happy and my supplier has also been changed I lose on both counts*

### **6.3 7 No Monitoring for Product Quality**

Exporters said that they do not monitor their suppliers for quality, but like to see if their work was progressing according to schedule or not Many did not visit the premises of their suppliers but kept in touch only on phone Exporter E14 explained that he would visit suppliers informally but not in relation to business Exporter E16 was of the similar view *I go to supplier's place rarely, if a person does good work, he does good work and will give proper goods I talk more by phone* Exporter E8 said *I have to go and keep knocking at their doors and say please put my work on floor How far has it come? Supply on time is my concern I will anyway keep it in mind that if he has said one week it means 20 days*

Exporter E17 said *I inspect my leather supplier's work but only for timely delivery. Leather is the most important input and I want to make it sure that I will get the delivery in time. The suppliers are competent people and I can offer suggestions only as to colors, etc, but by going to his premises I can see how things are coming and how much time it will take. I do not go to any other supplier's premises.* When asked if he visited his supplier's premises, exporter E18 said he did but not for any inspection purposes, he met them just to keep in touch. Similarly exporter E1 also visited his supplier's premises, mainly to see how far his work had come and would not worry about the quality of the product. So monitoring for timely delivery is done, but not for quality of the goods.

#### 6.4 EVIDENCE FOR INTER-COMMUNITY TIES

The cluster can be seen as dominated by people from a particular community at a superficial level. This dominance is particularly strong in tanning. The popular contention is that community X dominates the industry, but this may not be true these days, particularly for the saddlery industry. In the tanning industry people from other communities out of 200 odd tanneries are ~~less than five~~ *less than five*. Businessmen have strong ties in tanning as they inter-marry within a sub-caste. Many of the saddlery exporters come from this particular community but not to such an absolute level. Many saddlery exporters, metal suppliers, tree makers and workers belong to community Y which itself is not a homogenous lot. Hired managers sometimes can belong to a different community than the owners and they were authorized to talk about their firm to me whereas many a times a family member refused to discuss any thing saying only the elder brother is competent to give all relevant information.

There were instances when members of the larger family do not even work together. Exporter E16 narrated the following incident: *our family business is in transport but my cousins are doing saddlery export and seeing their luxurious life style I too was tempted to get into this line and finally did. I started this business in 1992. My cousin is a very well established exporter, E18, but we do not have any common dealing for business and operate independently of each other. When I went into business I started with another person who is not a relative.* Entrepreneurs from both the communities offered their views and they are discussed below.

Exporter E4 discussed about his firm and community ties: *the working population can belong to any community or caste. The tree makers are not from the same community but I work with them. I work with various people and assess them whether they can perform the task at hand and not due to community ties.* Another exporter E2 was of similar view. He said: *suppliers can come from any walk of life as long as they are truthful, delivered on time and are not trying to cheat.* In fact putting forth the question about trust being limited to a community was a difficult task. Even when asked in a round about way like if trust relations can be limited to a group, which say votes for the same party, the above exporter almost lost his temper, though in a very controlled fashion.

Exporter E6 belongs to community X and he admitted that: *people think that we don't interact with others. But 90% of the people in my firm are from community Y, also my suppliers belong to both the communities.* In the course of a visit to his factory premises it so happened that the people whom he was calling and in one instance

talking about finances and gave money to, had a name belonging to community Y. In another case I talked to a manager of a firm belonging to community Y, but working for an exporter who was from the same community but different caste. The owner himself directed the researcher to question one MFE1 about the operations of his firm and he mentioned the following about his firm *for this firm caste ties may be playing a role in choosing suppliers. Many of them are of the same caste that of owner. These people may happen to get the work easily but if they do not perform well the tie will go sour. When such relations go wrong owners use managers to find fault and terminate the relationship. Such relations too go wrong. But the ties with tannery owners who belong to community X are good too and are long term.*

A manager of a leather firm, who belongs to community Y, MFL1, never felt that there was any problem in working with his owner. His view was *Kanpur is a small cluster and so we know each other. The trade is mostly with (community X) and as they inter-marry, tannery's son will be married to tanneries daughter, whose son in law may be from yet another tannery and at a social function though they are fierce competitors, they will exchange notes to some extent, at least see each other. But suppliers can come from any walks of life. It is not restricted to any community. And trust relations extend to them too.*

Yet another exporter E12 said that *actually businessmen have no community. If I get business we will work together and I have professional friendships with all my suppliers.* In the words of exporter E3, *it might be true that people from community X interact among them in meetings but then there is no problem with my suppliers.*

*There are just two tanning firms that are owned by people from community Y but my guess is no one must have told you that they faced any difficulty from tanneries No, that has never been a problem, we get good terms from them*

Textile supplier TS1 put it as *people in general have very good business relationship across communities, even if city is used to having communal riots* (Kanpur has faced rioting in the city between the two communities over certain issues many times in the 1990s and even in 2000 itself) *but the business relations are good* Exporter E7 buys leather and trees from outside He has been buying leather from the same tannery for all the five years He said *all the tannery owners are from community X and that has never been a problem* E13 also agreed that his suppliers could belong to any community

## 6.5 CO-OPERATION

In this research we found that the relationship had scope for both the partners When exporters or suppliers talked about their ties they often mentioned what was expected from each side and not in terms of one side alone There was a concern that the tie should be beneficial for both the parties or there is no advantage in it As exporter E17 said *leaving no margin for the supplier would make any offer very unattractive for him So a decent enough margin should be left as an incentive to the supplier to continue working with the firm At times goods are delivered first and price negotiated later and suppliers can raise the price if cost of a raw material has gone up or some other such justifiable cause is there It might happen that I got a batch of*

*leather from my tanner that was low on quality but it is not that I would return it back I would still accept it and use it for making something else*

*In a similar situation exporter E7 said I might ask for some improvements on the leather supplied but I will never stop the payment to the supplier because of this Also my supplier would never stop supply until I default badly on his payments I will think of changing my leather supplier only if the tannery has closed*

*When exporter E5 was asked what he will do if he found some fault with the supply of his long time supplier, he said I will try to do something with it if it is a minor fault, but if it is a major one, I will ask the supplier to take it back But this might not create ill will as I might be leaving margin enough for him on other products and this one time occurrence will not lead to termination of relations*

*Exporter E14 explained that trust was essential for running a business in business there should be trust or how will it run? I buy leather from this tannery, and I buy thousand pieces These pieces are cut to length and then they are to be measured for size Now when I get leather I am more bothered about cutting it right away and beginning work and not measuring it My father has measuring machine but we never measure it Nor do I visit his premises to check what is being made I just start working on it knowing that it is not going to be short For his metal suppliers the same exporter E14 said I buy different kind of metal fittings from five people in this market and a few of them make exclusive things for me and I know that they are not giving it outside*

might try to sell the order off to other exporters but if they were not successful, he would take it. E1 also had the option of lifting it in parts, paying for it slowly

In a similar situation metal supplier MS1 reported *if a new exporter takes supplies on credit and later faces problems in getting payments from his buyers, he might default on his payments to me. If a foreign buyer cancels an exporter's order, he will not lift the orders with local suppliers and in that case I simply have to put the goods already made in my stock. I can additionally request one of my long-standing exporters to see if he can take that good. Usually one of my long-term buyers lifts such orders. But I have to forego my usual margins on such goods.*

About the recent situation in the US, another exporter E8 said *in cases like the American Tragedy it is seen as jo kahte hain, bhagwan ki maya hai to saab adjust karte hain* (like it is said, it is God's will, so everyone will adjust). Leather dealer LD1 said that due to the foot and mouth disease the shipments of the exporters and thus payment by their buyers were delayed. So every supplier who was affected would wait till the exporters got paid. And this was considered to be a legitimate reason for delay.

In case there was need for a more lenient term only for him (exporter E8) due to personal problems then E8 had to explain the situation to his suppliers and convince them. Then the suppliers would be willing to accommodate him. Exporter E15 too supported this view and explained that if he wanted to delay payment to a supplier he could do so by talking to him and explaining the situation to him. Similarly if the supplier wanted to take more time to deliver orders, he could do so provided he gave

a satisfactory explanation. Then if E15 had to meet urgent delivery dates he was free to tell his supplier that this time he wanted to buy from some other place. MFE2, manager of a saddlery export firm, was of the view that he could get rush deliveries from his trusted firms whenever he needed them. If E16 wanted to delay payment to a supplier he did so by talking to the supplier and explaining the situation to him.

He also offered the following account about his buyers in the cluster: *when I was young my brother was looking after the business, but he died in a road accident suddenly. At that time my competitors started going to the exporters we have been supplying for long saying 'firm X has gone out of business and why don't they start considering them for it?' But my exporters stuck to us with the notion that there is a younger brother of (name of his brother), and first it is his right to get this business. If he is unwilling or is not capable of supplying to us then only we would think of doing business elsewhere. That is how I could ride over the initial years after my brother's death. In turn for an existing long time exporter I put him first in my production line, even though he placed his order later.*

Exporter E9 cited his metal supplier as an example of his long standing relationship. He has been buying fittings from the same supplier since 1948. *This firm mostly works for me. I buy 90% of their supplies and the rest 10% they sell to the market. It has been a most satisfactory relation. They know the specifications of our fittings very well and will take care that it is done exactly the same. If I go to the other people they may increase the weight of the fittings and it will be a loss for me as certain items are bought by weight. Also if it is made light, it may break after some time and this again*



*will lead to problems But with my supplier things work effectively Both of us depend on each other for keeping our business well and this is one very important relationship for me*

The exporters and suppliers both said that disagreements did occur but efforts were made to sort it out and only after repeated misunderstandings they stopped dealing with each other Exporter E6 explained *no one wants to break out of an old relationship But if I am being repeatedly, say up to four-five times, being fouled by a supplier I will think of changing him* Another exporter E9 said *I have been buying leather from one supplier for many years but their old tanner has left and the new one is not getting out consistent products (name of a firm) didn't heed to my repeated complains and finally I had to switch firms Now I am in process of getting stable with another tannery I have been buying from more than one firm these days*

Leather supplier LS2 said *disputes arise if the buyer finds the quality of the leather supplied, bad In that case we are willing to sell the good to some one else maybe at a lower price but want to retain the buyer If the buyer is not satisfied with the quality even after two or three dealings then the buyer might decide to buy from someone else On the other hand we will feel bad if the buyer doesn't pay on time We are willing to listen in many cases but if the check keeps bouncing twice or three times we too might think of not doing business with the same person again*

## 6.6 PRODUCER TO PRODUCER RELATIONS

Producers interact in IDs/SFCs in order to identify their common interests and act upon them for common benefit. The areas where exporters have links with each other are for sharing buyer information and exchange of favors, assistance in managing labor advances, and awareness about potentially ruinous price competition. These practices are detailed in the following discussion.

### *6.6.1 Sharing Buyer Information and Exchange of Favors*

Exporters in this cluster know informally who is selling to whom in the foreign market. Though buyer information is guarded zealously but exporters admit that there are ways to know who is selling to whom. Some of the means are not admitted openly as it involves getting the transcripts of the receipts of shipments made to foreign buyers from banks or shipping agencies for a price. But exporters said that many foreign buyers would themselves tell them as to who else they are buying from in the cluster. Still exporters supplying to the same buyers often know each other and interact amongst themselves. The exporters said that when they knew another exporter who was supplying to the same buyer and if they were worried about the financial health of the buyer or just wanted to check if the other exporter was getting timely payments, they could get in touch with each other. As exporter E1 explained *we know each other if we are supplying to the same buyer. If I feel a buyer's financial position is going bad, I will like to check it with another person. He may have recently met the buyer and might know more. At times they tell that no it is only a temporary problem and it will be solved.*

Producer to producer interaction is also possible when they are making complementary products and are not competing directly. Exporter E6 explained *since I specialise in harness and it is complementary to saddlery I have good relations with many producers, and we are supplying to common buyers. It helps to stay in touch with other producers because they can share information about a particular buyer. Sometimes other producers tell me that a certain buyer is not in good financial position and I should be cautious in offering credit to him.* The exporters admitted that they might discuss things in small groups whom they considered friends. Exporter E2 said that he shared information with a few friends but did not gossip about his buyers. Exporter E12 had two or three good friends in the business with whom he could discuss business matters but not with every one.

Exporters did favors to each other in business. In the course of the interview with Exporter E5, there were two phone calls. I could hear the conversation at only one end, but for the first call E5 replied that he did not sit in Somdutt Plaza but in Gopala Chambers and that he did not have a *good link* with the person. But he also added that if the need arose then something could be tried. The second call was from a shoe manufacturer and E5 said that he was willing to carry his shoes as a sample on his trip to Europe, which was going to be a few months later. He also said that the shoes should be ankle length so that he could show them as riding boots. But it would be better still if he came with him to Europe and saw for himself how things work. When I asked him for whom would he do such favours, he said that a person could not call him for the first time and make such a request. *But I can only show this person the way, rest he will have to do himself,* he added.

Exporter E1 carried some of the samples from job workers to the trade fairs and passed on the orders for those samples back to the job workers if he got them. Exporter E8 got the lead about how to start his own export through an exporter who was closing his business. He asked that exporter, *would you mind if I sent a few samples to your buyers? And the exporter agreed to it*. That was how he started his business.

There were around 10 to 12 people who were very well versed with the tax matters and if someone else in the industry wanted to take their help they were open to it, explained exporter E17. They knew government officials too and could argue cases on behalf of other exporters. He added *if the person doesn't know me directly he will try to find out someone who knows the person concerned and me I will do the work because if a request is being made, it should be taken care of*. He further explained that there was a strong group of 10 to 12 people who traveled together to SPOGA trade fair, where they stayed in the same hotel and shared a lot of information. *At SPOGA if there is a product, which I do not make but know someone who does, I will direct a foreign buyer to that person. If I do it, there sure are other people who will do it too*. Exporter E4 also said that many exporters traveled together and generally discussed business with each other but there were limits to the information shared, like no one would like to share details about their existing buyer. Common problems of the industry were discussed widely.

### 6.6.2 Co-operation for Labor Advances

As has been discussed earlier in Section 5.4.1 in detail, the labor force in this cluster is contractual in nature. Once the contractor and his group have finished an assignment they can move to another firm. At times the contractors take an advance from an exporter and move on to another firm before settling. Exporter E1 explained *workers are on contract in this firm. But even when there is no work I give them some advance to be adjusted when work comes to my firm again. The workers demand it saying they need to eat even when there is no work with the firm. But then workers can take the advance and when work has arrived, by that time they are with some other firm and refuse to come back. To cope with it there is a union of people and they refuse to take such workers before enquiring with each other.*

When asked how big this union was, he said *we are a few people, mostly friends who are part of this agreement. There are other such groups too in the industry.* Other exporters also explained that they could find out where the contractor in question was employed at that time and request a settlement to the other exporter explaining the situation to him on phone. This practice was quite common across the cluster though views differ about how effective it was for solving the above problem. Exporters agreed that they were free to contact other producers with a request, though they were not sure if it would be honoured every time. As exporter E18 put it *people do call each other but not all will comply. Only 5 to 10% will see to it that the dues are settled. Some of them will tell the labor to go back and do the work there or others will say they will pay it and the exporter can adjust it with the labor later.*

Another exporter E16 added *if one calls up an exporter and tells him that he has a worker who has advance to settle, most people see to it that it is done. It is not necessary to know a person to make such a request. Sharif log consider kar lete hain, per kuch log ignore bhi kar sakte hain, ke mera kya jata hai. Per log ye samajhte hain ke mere sath bhi aise ho sakta hai* (Decent people will consider such a request but a few exporters may ignore it thinking that they have nothing to lose. But most of the people understand that it could happen to them some day too). He also said that if someone makes this request to him he would consider it. *I will ask the worker and if he admits he has an advance, I will give him the money and he will settle it with me later.*

Exporter E3 explained that he gave his labor money in advance. *It can be for their children's school fee or if someone is sick or things like that. Usually it is not very big money and when I give it I feel it will not come back to me. But at times the advance paid can be higher and then I do call other exporters, I myself keep getting such calls. Many of the people do concede to each other's demand but many may not. I myself have asked many times the contractor to go back and finish their work and then come again to my factory.*

### **6.6.3 Price Competition**

Exporters in this cluster showed a concern for price-based competition. The number of foreign buyers is not growing as fast as the number of exporters in this cluster. It is easy to get started in this business because the initial capital requirement is low and it is also easy to exit. As exporter E18 said *the way people start this business is*

*amazing They know almost nothing about the product or the market, yet they want to try their hand, as there is no investment in plant and machinery They can get the samples made and try and take a trip to Europe The sample that may cost us Rs 300 will probably cost them Rs 500 but yet it is not a big amount They have a very rosy picture, as if the importers would be ready to greet them at the Frankfurt airport itself This is a false notion Once there, they realize how hard it is to get started in this business But the initial amount is so low and no plant and machinery to dispose off if they have to wind up, they still consider it worth trying E18 added if I sell something for 10 dollars, the other person should try and sell it at 11 dollars and not 6 or 7 But the kind of competition we have, invariably someone will try to sell it at 6 dollars We are ruining ourselves in this way*

Many people who start this business were initially related to this industry in one way or another Many were suppliers to the saddlery industry, some worked in partnerships and tried to gain first hand experience, while others had extra cash from some other business They all agreed that this business is less capital intensive to get into This coupled with a lack of concern for quality, leads to intense price competition among exporters According to exporter E1 *price competition is intense among Kanpur firms Buyers play the producers against each other This condition is not in favor of anyone but since players keep coming in, it is very difficult to come to any sort of agreement My father tried very hard for the industry coming to an agreement but could not succeed The newcomers always give the argument that since they are new they need to sell at lower price*

Exporter E14 explained that there was a certain other group of people who had money and also wanted *exporter ka chaap* (stamp of being an exporter) These people asked for very low prices initially Workers in starting the business often helped these exporters Many a times a worker could approach this group of exporters saying *Saahab aap shuru tou kijiye, hum sab karva denge* (Sir, you just start the business, we will manage everything) Then there are many job workers who have become exporters now E14 was of the view that these people always asked for low rates, as they themselves knew how to work on the product They could always make it at a lower cost by not wasting leather and employing family labor, he added, *inse tou kabhi acha price nikal hi nahin sakta* (they are just incapable of asking a good price)

Exporter E17 felt that they were undercutting each other He said *if I sell a product for Rs 200 and someone does it for Rs 125 it is fine But when it gets reduced to Rs 75 then it starts hurting Buyers themselves exploit this tendency* Exporter E13 explained that if he quoted too high a price his buyer would pull out a document and show him what other firms were charging and not many people could be firm and refuse to come down Exporter E12 was of the view that *it would greatly help if everyone agreed not to compete on the basis of price, which is not good for anyone But till now no such agreement has been reached*

The exporters were aware of the situation and agreed that it is harming everyone Exporter E15 was of the view that if the exporters in Kanpur could stick to demanding higher prices, it would benefit all *but exporters have very little interaction among themselves I individually do not lower my price below a certain rate If*



*someone says he can get it cheaper from Y place I say he can go to Y But even if people agree to charge a certain price there is no way to know what they are actually charging from a buyer once they are abroad and sitting in the office of a buyer Even if people agree in theory when they talk with a buyer they will cut it down (in case) they feel the order is not going to materialize if they don't lower the price*

Exporter E11 echoed a similar view, he said *there is a stiff price competition among the exporters in Kanpur The buyers keep telling that he has been offered the same good on a lower price But I feel that buyers will say like that because it is in their favor to say so Exporters should not believe it but try to stick to the price they want to charge I do not always consider the buyer's price as final Also there are other exporters who also stick to their own prices But there are many others who will lower the price People at CLE meetings express the desire to come to an agreement regarding price but they know they cannot do it*

As indicated above, some discussions have taken place among the exporters through meetings organized by the CLE Many a times, the topic of the discussion was how to avoid charging low price People expressed a desire to have a 20% profit margin and not charge below it, but nothing could be done about it in actual practice *It is one thing to say that one should charge 20% margin but no one wants to follow it up, is what exporter E14 had to say about the issue Exporter E8 put the sentiment behind many exporters in these words it is my free will on what price I sell, I may sell it for free, who are you to tell me at what price to sell?*

So, though there is awareness about excessive price competition being ruinous for all and some initial discussions are taking place about such practices, there is no concrete action. For that matter, discussions and consultations through the business association also do not seem to be very strong in this cluster. *We meet through CLE only when there is a crisis. Otherwise we rarely meet and discuss anything*, exporter E18 said. He further mentioned that a meeting took place recently in which they wanted to revive their association but he was not sure how far the attempt would succeed. Interaction through business associations among the exporters is discussed in the next section.

## 6.7 INTERACTION THROUGH BUSINESS ASSOCIATION

Views differed about the existence of an exclusive association of saddlers. Many exporters said that there is no such organization, while others are of the view that they can meet through the CLE. They can also get information about changes in the cluster through CLE circulars and there is no independent association. Still others say that there is an exclusive association of saddlery exporters.

There were exporters in this cluster who were not particularly interested in the collective activities. Either they did not take the CLE membership or even if they took one it was a basic membership. Such members did not get CLE circulars and it also costs less. Exporter E7 said *I am not a member of association. I also do not feel that the labor-training program of NLDP is going to be of much help because labor gets trained among them quite effectively*. Exporter E5 asked me to explain what NLDP stood for. Exporter E6 said *we are a member of the association but I do not*

*attend the meetings myself I am probably too young for it and my words won't carry any weight there* Exporter E12 said that he was never invited to association meetings but he was aware of the collective project to develop a polyurethane mould in collaboration with IIT-Kanpur. The second group held CLE's membership but did not find it effective. Exporter E15 was of the opinion that producers might say hello to each other at SPOGA but that was not what he considered interaction. *having a membership in CLE is not enough and we rarely meet through it But then I am an old man and I do not want to get into the political aspect of all this*

There was a third small group that took leadership for the issues facing the cluster and they were of the view that there was a separate association of saddlery exporters though it had not been very active in recent times. The most common way of meeting was through CLE and when I asked about the agenda of such meetings, exporters invariably replied that it almost always had to do something or the other with the issues on which they wanted to petition the government. Exporter E3 explained about CLE memberships *there are two types of membership available with CLE, one costs rupees 3 thousand and the other 5 thousand The 3 thousand one is a basic membership and those members are not invited to meetings etc But majority prefer that membership Even out of the registered members if a meeting is called and 20 people turn up, it is supposed to be a big gathering Normally only 8 to 10 people turn up*

Price competition, as discussed in the previous section, was another issue. But these meetings were infrequent and not well attended. As exporter E16 said, that a few days

back (at the time when the interview was conducted) there was a meeting and at that time they decided to meet on the coming Sunday. They had planned that they would each pay Rs 100 towards that, but he did not hear from anyone about it. He said that their chairman even booked a place in a restaurant but he was not sure if this meeting would take place. Further he added that the meetings were sparsely attended.

Exporter E8 mentioned that he attended one such meeting last year and he had been too busy after that to go to another one. Exporter E4 said there was an association and they could work through CLE but it was not very active. He felt price issue was too complex to be settled soon. *I don't say that new people should not come, but they should have the courage to charge good prices. But I don't see it happening. Nothing comes out of the meetings.*

From the above discussion it can be seen that there is no strong association of saddlery manufacturers. It is still possible to meet collectively because many exporters are members of CLE and through its circulars a call for meeting can be given. Some exporters join the association of leather manufacturers in Kanpur and at one point a saddlery exporter was the chairman of it. The number of active exporters is small yet this group has been able to collaborate with NLDP for certain training and technological up-gradation programs. ~~As~~ discussed in the next section.

## 6.8 INSTITUTIONS AND COLLECTIVE ACTION

National Leather Development Program (NLDP) (A body created under UNDP) is working in this cluster for technological up-gradation. Two ~~specific~~ <sup>specific</sup> projects have

been taken up on the recommendation of a small and active group of exporters. The first aimed at technological up-gradation in the cluster and the second for getting moulds for plastic tree made locally in collaboration with one of the top rated engineering institutes of India, Indian Institute of Technology, Kanpur. However, there is one major difference in the approach of the exporters in this cluster and of that found in IDs. In the European clusters it has been observed that industry people were themselves willing to contribute to finance the projects they wanted for the development of the cluster. On the other hand, currently at least, there is a marked reluctance to put in money even on a shared basis. Exporter E4 was of the view *NLDP is doing a good job for the saddlery industry. The industry needs to modernize and NLDP is helping in it by starting the training program. The amount of money needed to start such a program could not come from the industry as there is a big risk involved as to if it would succeed or not. However if government is willing to spend it could be given a good try.* A member of CLRI, MI3 was of the opinion that *industry people are extremely reluctant to take initiative on their own and to shell money for any such purpose. They also fear that the better trained personnel may not stay with them and, in that case, all the money will be lost which was spend on the training. The industry people behave like a referee sitting on a fence rather than being active players.*

The initiative through NLDP started because, at one point, the local leather association had a saddlery exporter as its chairman. The then chief minister of the state, Kalyan Singh, took a lot of interest in the export growth from the state and in a

meeting in 'Yojana Bhawan'<sup>1</sup> E17 asked for support for India's only saddlery cluster in Kanpur, as it had a lot of potential for earning export revenue and employment. The government encouraged NLDP to intervene.

A board was constituted to look into the needs of the industry and it contained members, from both, the industry and NLDP. The industry members expressed a desire for getting moulds to make plastic trees in the city itself and if a training institute could come up in the city that had all the latest machines used in this sector in the world. Exporters could try these machines at the institute's premises and later they could decide what they wanted to buy for their individual firms. Prominent members of the industry are on the board of this project and they have interacted with each other on various issues previously. To take an example, exactly the same members were on board of a similar effort launched by CLRI earlier. The chairman, E17, was quite optimistic about the training program for the industry. Land has been given by the UP state government in a leather technology park near Unnao and the faculty of this institute is to be hired from abroad. The machines to be used for training have already been procured and E17 felt the effort should take off soon. Some delay occurred as the land offered initially by the state government was a very old building, so they waited till they got a better place.

The work for getting the moulds developed was given to Indian Institute of Technology, Kanpur. Many exporters were worried because that the project was not in proper shape. But MI4 of NLDP Kanpur division felt that the contract for moulds

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<sup>1</sup> Name of the state government's office (in Hindi) for planning and development

with IIT Kanpur was just running behind time. He said *the project would eventually be successful. After all what IIT is trying is new and is not making something routine and developing it in house and for the first time is bound to take some time.* When I was going around the NLDP training center's temporary premises with an employee and having a look at the machines he showed me a polyurethane tree made by IIT moulds. He said *the contract for making such a mould would be given to a local firm. The orders are to be placed with the institute and exporters can get the product. As of now the product is not stable so orders too are slow to come.*

The new training institute for saddlery has started functioning in the city but from a temporary location. It has to shift to the leather technology park later, which is to come up at Banthar, Unnao. The plan is to encourage the firms to relocate to the technology park from the city of Kanpur. There was awareness about this institute among the exporters. E14 said *I get the splitting of the leather done at this institute. The machines with the institute are of new make and can tackle any kind of leather. Also the institute will do this work for anyone. A worker keeps the leather in the premises in the morning and takes it back the next day. I find the work quite satisfactory. Though I am worried about the institute shifting over to Banthar in Unnao and then it will become too far away to get this done. The people at the institute assured that they will open a city office where the exporters can still keep the goods for job work and take it from there.*

Exporter E18 added that the institute had an impressive collection of machines though all of them were not functional at the time of the interview. He was of the view that

this kind of service was important to the industry, though right now only a few people might be using it. There are others who don't know about it as exporter E3 said, *Uska to bas aise hai ki I don't even know where it is. Some say it is in Civil Lines but some say it is in Jaymou and so uska tou baas aise hi haal hai (It is like, I don't even know where it is. Some say it is in Civil Lines but some say it is in Jaymou so it is in such a shape)*. Many other exporters were not so skeptical but had a wait and watch policy about it.

The institute also started an educational training program for a batch of 15 students (December 2000) and they were to be trained to work in this industry. It will be appropriate to recount an earlier training experience started by CLRI in this cluster. The program was for making saddle and bridle and two people from CLRI took three months training at UK. Some of the prominent industry members who were on NLDP's board were on this board too. The CLRI program had to be closed after a year. But exporter E17 was of the view that *compared to the previous program the current one deals with more machines. Earlier there were just five machines with CLRI but now there are nearly 25. Also the six months training which CLRI people had was quite inadequate for the purpose and now they have people who were teaching at institutes abroad and are better equipped to the task*.

MI2 is an employee at CLRI who took the short-term training for the earlier program, and a discussion with him gave a lot of insight to this attempt. The target audiences for the program were of three types, people who were already working in the industry and needed to upgrade their skills, people who wanted to open their own industry and



people who would look for a job in this industry after doing this course. This program ran for three batches. Initially they were able to place students after doing this course in the local industry. But these candidates were educated and could soon learn and maybe get into export themselves. So MI2 felt that after a while the industry stopped absorbing people from this course and it became unattractive.

MI3, again of CLRI, said that for a year things went on smoothly but the new people wanted to start on their own after gaining experience by working for an exporter and after a while the industry stopped absorbing them. He mentioned *if a person pays 5-7 thousand in fees for the course and still can't land a job we thought it was not right to continue with the program*.

Secondly, the industry sponsored candidates were contractors who had already spent some fifteen years in this industry. The three months training that MI2 had was quite inadequate to teach this group and he readily acknowledged it. The contractors had much more practical knowledge than the instructors. The theoretical knowledge of the instructors alone could not hold the interest of this group. Thus it became more or less useless for this group too. Finally the people who wanted to start their own business can still come and learn the basics but more or less there were no takers for it. Three prominent exporters from the industry were involved in the conception of the program in addition to the CLRI staff. A lot of machinery bought at that time is just gathering dust with CLRI.

The new program started with the first batch of 15 people in December 2000. MI1 explained that the entry criterion is plus 2 standard of schooling. For a while there

were two faculty members, both of them British. These people were professors at a saddlery training institute in UK and were given high enough inducements to come and join here at Kanpur. There was actually a third member from Germany, but he left very soon. As of now the British instructors too have left and the sole instructor for saddlery courses was a person who had done his two-year diploma from the top institute in Walsall, UK. He is son of a prominent exporter of the city. MI4 of NLDP explained *The British instructor had a yearly contract and it was over. They were more interested in the business deals and may work in that capacity from their country. But right now the German faculty too has left. There are two people from Czechoslovakia who keep visiting the institute on rotation and assist in teaching. Right now, the first batch is running with the current strength of 15 students. All of them are boys, there is no female student. The institute is in its inception, and there are problems in running it. We want to get it approved by AICTE and that approval is taking time. Before that the institute cannot offer three-year diploma courses. A company in Madras has already recruited one of our students for quality control. The institute is right now offering only short-term courses and they can offer diploma courses only after the approval by AICTE.*

The overall effectiveness of this initiative can be considered over time. Right now the effort is quite new and some of the exporters appreciate the introduction of the latest machines in this institute. About the training school MFL1 was a bit skeptical. He felt that *The model, which has worked best is putting machines at one center and asking people to pay for hourly use of it with a few operators. Once a firm has seen it all, it will know what to buy, how to use it and get its workers used to it. After five years*

*they can sell these machines or throw them in the river Ganges, as they would have anyway recovered the cost NLDP is pumping in a lot of money these days and thus such adventures take place Exporter E17 felt even if the students are educated and can open their own company they still will be useful Maybe women candidates too come for this course as they might not so easily open firms and come into business*

## 6.9 CONCLUSION

In this chapter, the data related to trust and co-operation among exporters and suppliers and among exporters has been presented Entrepreneurs stress that more than community ties, trust comes while working with a person The initial approach in a relationship is marked by caution and trust and co-operation play a role only after sufficient favorable interaction In this cluster the business association is weak and there is no trade union of the workers in the leather industry at large There is some collective action through the efforts of NLDP and a small group of exporters In the next chapter we discuss the findings in the context of existing ID/SFC literature

## CHAPTER 7

### DISCUSSION

#### 7.1 INTRODUCTION

Trust and co-operation are seen as central for the functioning of IDs/SFCs (Bagnasco 1998, Paniccia, 1998, Sabel, 1992) But many studies concerned with exploring the nature of trust and co-operation, have only described such practices (Benton, 1992, Gorter, 1998, Kattuman, 1998, Loop, 1998, Schmitz, 1992, Tewari, 1998) When an effort has been made to provide explanations, trust and co-operation are seen as results of characteristic based ties, like religion, region, caste, language, ethnicity, etc Lack of opportunism is ascribed to local customs and history where such behavior is rooted in a language well understood by everyone, thus mitigating fraud and providing a trusting environment (Brusco, 1992, Dei Ottati, 1995, Lazerson, 1988, Nadvı and Schmitz, 1998, Pyke 1992) Researchers from the ID/SFC literature itself have discussed that such a conceptualization makes IDs/SFCs more like ‘unique historical artifact’ than offering lessons for other regions to learn and implement (Holmstrom 1998, Sabel, 1992, Sengenberger and Pyke, 1992, Zeitlin, 1992)

In this study the trust literature was reviewed to provide a conceptual scheme for bases of trust We found that knowledge developed by parties about one-another in

the course of interaction over a period of time and common institutions, which again may provide platform for them to interact, can also lead to trust development besides the common characteristics. Previous research that deals with buyers-supplier or producer-traders relations in small/entrepreneurial firms also provides examples, where trust is not limited to characteristic based ties. Instead it has a wider base, like being member of a common large firm/college, long period of interaction, trial business, neighborhood ties, master-apprentice relationship, friendship ties, reputation, etc (Kowtha and Menkhoff, 1995, Kristensen, 1992, Larson, 1992, Lazerson, 1995, Lorenz, 1993, Uzzi 1997)

In the present research on Kanpur saddlery cluster, we find support for trust and co-operation that is based on knowledge and institutions. We also find that knowledge based trust presupposes familiarity, and it can develop through a small initial business, third party referral or it may be a continuation of an old business relationship. In the first two instances, a trial period is required where both the parties exercise caution and only after repeated interactions and favorable outcomes, trust develops. In case of an old tie, previous satisfactory interactions provide a basis for trust. We also find that trust is a property of long-term relations.

Institutions, those are important in Kanpur saddlery cluster are-an international agency (NLDP), local institutions like CLE and CLRI, and a small group of influential exporters. Collective action is possible in this cluster due to the interaction among all the above. NLDP is running an important program for up-gradation of technology in the cluster. As an institution of repute, it has been able to inspire

confidence among entrepreneurs in the cluster. A small group of entrepreneurs in the cluster initiated the development of polyurethane moulds and a labor-training institute in collaboration with NLDP. We find that due to lack of a vibrant association this task has fallen on a small group of active exporters. However, this group of exporters is again a diverse set and they do not belong to one religious community. But in many other instances collective action failed, as it required a large number of entrepreneurs to agree on a particular set of actions (labor poaching, Section 5.4.6, price competition, Section 6.6.3) and such an agreement does not seem to be possible without a strong business association.

A discussion about importance of norms is introduced in this chapter, as they appear to be playing an important role in fostering co-operation in the Kanpur saddlery cluster. We had not anticipated this result through our review of ID/SFC literature, where the role of norms has been limited to providing common values like expectation of fairness, hard work, etc. We find that norms provide stability that is expected of business associations.

We will discuss in detail the findings about the nature of trust and co-operation in Section 7.2 and about inter-community ties in section 7.3. In Section 7.4, results related to development of knowledge based ties are taken up. It is followed by a discussion of our findings about co-operation due to institutions in Section 7.5. Finally we introduce the role of norms in fostering co-operation in Section 7.6.

## 7.2 NATURE OF TRUST AND CO-OPERATION

In this research, exporters reported unambiguously that their supplier relations are trust based. I usually initiated the discussion by asking the exporters about their suppliers and the legal contracts they had with each other. All the exporters and suppliers reported that they operate without contracts and also stressed that they rely on trust in their relationships. Non-use of contracts and reliance on trust has been reported in previous studies (Bagnasco, 1998, Lazerson, 1998, Macaulay, 1963). However, all these studies have been conducted in the context of the developed nations where contracts existed but were not used in day-to-day functioning of the relationship. Lazerson (1998) notes that in the Modena knitwear cluster, written contracts are exceedingly rare, where, often a party displaying a contract conveyed message of distrust. Macaulay (1963) in his study of business relations between manufacturers in Wisconsin, USA, pointed out that contracts might be brought in force only as a last resort, 'when all hope of peaceful resolution have vanished' in a relationship. But in the present research, we find that contracts simply do not exist between exporters and suppliers and in many instances even with foreign buyers, and entrepreneurs report an exclusive reliance on trust to govern the relationship. More on this issue is discussed in Section 7.6.2 on Norms.

All the entrepreneurs that I interviewed agreed that they relied on trust in a business relationship. We could not find a single incidence, which offered a contrary example where contracts were used or any other reason was given for the governance of the relationship. This finding is in line with the study of buyer-supplier relation in UK printing industry (Møllering, 2002) where the author found a high level of agreement,

among both buyers and suppliers, about trustworthiness and he considered the result both remarkable and unexpected

Trust literature has attempted to distinguish amongst concepts like faith, confidence and belief, from trust (Blois, 2000, Lewis and Weigert, 1985) and such a discussion does lead to conceptual clarity. But in practice, care should be taken to interpret these related terms. During the interviews, in Kanpur saddlery cluster, the exporters used different words like 'faith', 'mutual understanding', 'trust', 'spoken words', etc., to define their relationship, yet we find that the process for development of ties and nature of co-operation are remarkably similar, irrespective of whatever term is used. This common process involves long-term relations, which develop gradually with both the parties exercising caution in the initial phases. Trust developed after repeated interaction with favorable outcomes and leads to various co-operative practices. Co-operation involves an element of well being for both the parties. Thus, care should be taken in an empirical setting to interpret related words, as they might be used to describe the same phenomenon.

We find that co-operation manifests itself in various ways. For instance, in a trust based relationship exporters do not consider small price differences reason enough to change a long-term supplier. As mentioned earlier, the exporters in the saddlery industry in Kanpur sell in middle and lower range in the foreign market (see Section 5.3.1 for details). The responses of both the groups are slightly different but both want to retain their trusted suppliers. Many exporters are producing goods of low quality and their product is very price sensitive abroad. Another group makes



saddlery of better quality and commands better prices abroad. Accordingly, the first group is more sensitive to price differences of their local suppliers. Still this group would first ask its existing long-term local supplier to match the price, and if he is unable to do so, then only go to another supplier. It was expressed as:

*I keep taking a note of the prices offered and compare it with what my supplier offers. Now market is tight, if I buy at 100 rupees and someone offers 96 rupees I will ask my supplier if he too can come down, mostly he does. (E14)*

The second group does not consider small differences to be of any consequence in case of an established supplier. This group feels that much could be taken for granted in an established relationship.

*I buy almost everything from outside. Price differentials have little meaning for me. I will not leave an established supplier. Even if the price differentials offered were too large then too I will first ask the supplier for the reason. If I feel someone is giving a lower price just to drive my existing supplier out, these kinds of things don't appeal to me. A few of my suppliers will quote a fluctuating price for some of the items but it never bothers me if they have been with me for some time. (E2)*

Based on the above, we would like to argue that entrepreneurs are willing to forego what could be a small price advantage because an established relationship offers them

stability and understanding, which develops only with time. Even when small price differences do matter because of working in the more competitive segment of the export market, still a first offer is made to the existing supplier to match the terms.

Uzzi (1997) has reported that relationships function more in accordance with a philosophy of partnership, where a relationship between firms comes first, rather than a calculation in self-interest. We also find that when entrepreneurs describe a trust based relationship, they talk about expectations that they have and also what they think their partners expect of them. While taking a certain decision, they often consider the impact of the action on both the parties. All the exporters and suppliers that I talked to said that it was easy to adjust the payment routine or delivery routine in their favor if their personal circumstances demanded it. But they stressed that it was possible only in an established relationship.

*In a mature relationship I am able to get a rush order, the supplier will not ask for money if I am facing a temporary crunch. Also I do not check the quality or price quoted by the supplier every time. I will do it only once in a while. Then if I find too many differences I will first ask the supplier for the reason. (E2)*

On the other hand suppliers too express confidence that they could get payment in advance of what is agreed upon initially, if they make a request to a long known exporter. Suppliers could also ask for delay in delivery if certain problems crop up without any risk of hurting the relationship. In addition, the suppliers freely admit to putting the work of an established exporter ahead on line.

*for an existing long-term exporter, I put him first in my production line, even though he placed the order later (MS1)*

This kind of adjustment is most commonly mentioned. Another co-operative practice is not to return material that is below expectation, from an established supplier, but to make some alternative use of it so that the supplier's margins are not hurt. This clearly is in line with the philosophy of partnership than self-interest.

*If I got a batch of leather from my tanner that was low on quality I would still accept it and use it for making something else (E17)*

Even if it is to be returned, as some exporters said, because they could not make any use of it, they would take care to leave a sufficient margin in some other product so that the supplier did not suffer. In a long-standing relationship, exporters exhibit confidence of things working to their satisfaction and mutual advantage. The following example, involving an exporter and metal fittings supplier, gives an idea about such a relationship.

*This firm mostly works for me. I buy 90% of their supplies and the rest 10% they sell to the market. It has been a most satisfactory relation. They know the specifications of our fittings very well and will take care that it is done exactly the same. If I go to the other people they may increase the weight of the fittings and it will be a loss for me as certain items are bought by weight. Also if it is made light, it may break after some time and this again will lead to problems. But with*

*my supplier things work effectively Both of us depend on each other for keeping our business well and this is one very important relationship for me (E9)*

In other instances the survival of the firm itself might depend on co-operation shown by others In a particular instance a supplier offered the following account about his buyers in the cluster, where support of his established relations was necessary for the survival of his firm

*When I was young my brother was looking after the business, but he died in a road accident suddenly At that time my competitors started going to the exporters we have been supplying for long saying firm (name of a firm) has gone out of business and why don't they start considering them for it? But my exporters stuck to us with the notion that there is a younger brother of (name of his brother), and first it is his right to get this business If he is unwilling or is not capable of supplying to us then only we would think of doing business elsewhere That is how I could ride over the initial years after my brother's death (MS1)*

To sum up, vertical ties are important and play a fundamental role in Kapur saddlery cluster What is remarkable about these ties is that they function without any contracts even when a new business is initiated Thus, right from the start a minimum amount of goodwill is extended to any party within the cluster, irrespective of the personal ties As contracts are not used at all and this practice does not depend on personal ties,

it seems to act as a sociological precondition for trust and co-operation to develop. This practice clearly seems to be more conducive for emergence of what Ring (1997) has called a 'resilient trust', where parties have not hedged their bets through institutional safeguards of contracts, courts of law, etc.

Trust and co-operation, in vertical ties, is not defined narrowly as a calculation in self-interest in accordance with an instrumental perspective. Entrepreneurs consider the benefits that occur from understanding and stability of a long term, trust based tie to be far more than mere price differentials offered by new suppliers. The ties are not based on immediate and only economic gain, but function on mutuality that is generally defined. Either of the two parties, exporter or supplier, whoever is in need, can initiate adjustment in terms of business. Just as exporters quoted instances about not returning slightly defective material, suppliers reported putting the work of an existing supplier ahead in line. Co-operation can be essential for well functioning of a firm or even survival in certain instances and, hence, care is taken to take into account the interest of the partner in an established tie.

### 7.3 INTER-COMMUNITY TIES

Literature related to IDs and SFCs contains numerous examples where trust and co-operation are seen as stemming from characteristic based ties like common religion, region, language, etc (Brusco, 1992, Cadene, 1998, Dei Ottati, 1995, Dupont, 1998, Lazerson, 1988, Nadvi and Schmitz, 1998, Pyke 1992). After a detailed discussion in Section 2.4 and 2.5, we argued that there are descriptions of trust and co-operation within the ID/SFC literature itself that seem to be based on wider ties than

characteristics. Further, studies in context small entrepreneurial firms demonstrate that trust can be based on knowledge or institutions. Thus, we came to the conclusion that a characteristics based explanation alone is inadequate to capture the realities of ID/SFC in many instances. In this cluster we found evidence that trust relations did not form strictly according to the community ties.

In our research, as it was discussed in detail in Section 6.4, exporters primarily belong to two communities, X and Y. Additionally, community X has traditionally worked with leather and they dominate the leather-tanning business to quite some extent. Leather is considered a polluted commodity in the community Y, not to be touched or worked upon. There are only a few entrepreneurs from community Y in the tanning business even to this date. But over time the inhibitions have broken down and many exporters from community Y have started working on at least finished leather. Even in this setting, where one community manufactures almost all of the critical raw material like leather, we found that trust and co-operation did not get restricted along the community lines. Added to that, the social relationship between these two communities is subject to conflict due to the religious disharmony that prevails in general in the city and at times can lead to riots between the two communities. A few accounts of what entrepreneurs from community Y shared on this topic are recounted below.

*People in general have very good business relationship across communities, even if city is used to having communal riots (Kanpur has faced rioting in the city between the two communities over certain*

issues many times in the 1990s and in the year 2000) *but the business relations are good* (TS1)

*actually businessmen have no community If I get business we will work together and I have professional friendships with all my suppliers* (E12)

Thus it can be seen that in spite of community X dominating the leather tanning industry, exporters and suppliers from community Y have not voiced any business worries because of it. They are confident that they get good terms, and describe their relationship as 'business friendships' 'good business relationship', etc.

Similarly, exporters that belong to community X have to deal with suppliers who are from community Y, particularly in case of tree makers, though not limited to them. Community X is a minority community in India and many exporters were sensitive to the question of identity of their supplier. One exporter went as far as asking me '*you mean to ask that we work with (community X) only?*' He elaborated

*People think that we don't interact with others. But 90% of the people in my firm are from community (Y), also my suppliers belong to both the communities* (E6)

In many instances even putting the question to exporters and suppliers from community X was a difficult task and I did not feel sufficiently confident about asking them the identity of their business partners. Even when asked in a round about

way, like, if trust relations were limited to a group, which voted for the same party, one exporter almost lost his temper. I had to quickly explain that these are the conclusions of some other studies. He said he was surprised to hear about them. He added

*Suppliers could come from any walk of life as long as they are truthful, delivered on time and are not trying to cheat (E2)*

*The working population can belong to any community or caste. The tree makers are not from the same community but I work with them. I work with various people and assess them whether they can perform the task at hand and not due to community ties (E4)*

From the above discussion it can be seen that exporters and suppliers from both the communities have no reservations about working with each other. Moreover, because exporters come from two different communities and one community has almost a monopoly over the most important raw material-leather, if inter-firm trust and co-operation is to occur, it has to be across cultural identities.

These findings mark a departure from the studies that find trust and co-operation stemming predominantly from characteristic base, like religion or region, language etc. as reported in European cluster studies (Bagnasco, 1998, Brusco, 1992, Dei Ottati, 1995, Fua, 1991, Inzerilli, 1990, Lazerson, 1988, Pyke 1992, Ritani, 1992, Tiggilia, 1992), as well as in developing nations including Indian clusters (Cadene, 1998, Dupont, 1998, Knorrinda, 1996, Menning, 1997, Nadvi and Schmitz, 1998,



Swaminathan and Jeyaranjan, 1999) It will be argued further in light of our findings that the possibilities exist for trust and co-operation to be observed in settings that have a mixed characteristic base

## 7.4 DEVELOPMENT OF KNOWLEDGE BASED TIES

The way trust has been conceptualized in most of the ID/SFC literature, development of trust seems automatic Trust and co-operation are seen as accepted way of doing business, something that comes out of community by itself (Bagnasco, 1998, Brusco, 1992) On the other hand we found that in the Kanpur saddlery cluster trust ties developed only after interaction over a period of time Knowledge about the other party through personal experience is one route to trust and co-operation It is also possible that a third party referral might be taken but it is only another starting point in the process of gaining personal experience Personal experience came from working together over a period of time We find that initial interaction is marked by caution on part of both exporters and suppliers If the first few dealings are successful, order size may increase gradually This phase can be seen as a trial period, where both the parties to transaction exercise caution by giving small orders and not offering credit It is only after repeated favorable interactions that trust and co-operation may emerge Another way, where trust ties play an important role, is continuation of old relationships

### *7.3.1 Personal Experience*

Personal experience is the result of satisfactory, long term interaction The relationship could begin in two ways One is by giving an initial small order to a new

supplier to whom the exporter locates himself and initiates the deal. It could also be the other way round, where a small order can be given to a supplier who comes to the exporter's premises and asks for work. In addition, a few exporters could demand to see samples before placing even a small order. If repeated interactions over a long period of time go well, such personal experience could lead to trust and co-operation. Suppliers on their part would not offer credit to a new exporter. To recollect what a few exporters said

*Leather and tree are critical supplies. The relationship develops gradually. I give short orders in the beginning. If I am satisfied it will lead to a second order, which will be slightly bigger than the first. If the quality is consistent, delivery made on time the business will continue (E17)*

*Only after sufficient interaction I can have a good idea about the paying capacity of the clients and then only credit is offered. Credit is not available to first time buyers. It takes almost a year for us to offer someone credit (LS1)*

This finding is in agreement with the study conducted by Kowtha and Menkhoff (1995), where they found that if familiarity was completely absent, relations begin with minor transactions. However, both the above study, as well as Larson (1992) concluded that in such a case one party would make credible commitments or take initiator's role, for which we do not find evidence. Both suppliers and exporters seem

to be evaluating each other and both take precautions on their part. One party does not seem to be making extra commitments to the relationship.

### **7.3.2 Third Party Referral and Reputation**

Reputation has been considered important in the previous studies for providing a proxy for trust formation (Larson 1992, Kowtha and Menkhoff, 1995). Reputation has been seen as both formal indices like credit reports, trade publications, etc. and reputation as communicated by a known and trusted person. It should be noted here that reputation in the sense of market indices does not exist in this cluster. So we have considered reputation in the sense of word of mouth only. This could be true of many clusters in developing nations that do not have formal rating structures for small firms and where trade publications are limited as well. Entrepreneurs explained that referral was taken to gather additional information and the process can be summed up as

*No it (reputation) is by word of mouth. I will ask a supplier (I know) who is the right person to buy it from? Otherwise I will ask some person whom I know in the same market but he does not make the same thing. But I cannot go by reputation alone, I have to work with the person himself and if the first few dealings go on well only then I relax and trust the person. (E15)*

Previous research has suggested the use of third party referral (Uzzi, 1997). However, Uzzi also found that the go-between was able to bring in obligations owed by one party and get it transferred to the other party. We find that in Kanpur saddlery cluster, asking for a referral is done more with a view to get information about suppliers

long period of time is required, though this time frame may differ from individual to individual. A few entrepreneurs report that they require two to three dealings to feel comfortable about a relationship, whereas others express the time taken for same as one to two years. Thus, it is through favorable interaction over a period of time that trust and co-operation emerge.

## 7.5 FORMAL INSTITUTIONS

Formal institutions like business associations, trade associations, specialized institutions, etc. have been considered important for co-operation and regulation in IDs. Common services can be provided through specialized institutions, and business associations can regulate many aspects of competition. In the existing ID literature, the reason for collective action is given as common membership of the same political party or church (Inzerilli, 1990, Lazerson, 1988, Pyke, 1992, Trigilia, 1992). Trust literature suggests that formal societal institutions can lead to trust (Zucker, 1986). We find that in Kanpur saddlery cluster, confidence inspired by an international institution and interaction among members of international institutions and an active group of exporters can lead to collective action.

In our study we find that the business association is weak in this cluster, in fact there is a debate whether such an association exists or not. Exporters meet for discussing common issues periodically through a national level institution, CLE. There does not exist a trade association in this cluster. Hence, we could not study the functioning of these associations in detail.

However, a recent initiative provides an interesting example of collective action that might be relevant to other SFCs that do not have strong associations as well. In recent years, an international agency, UNDP has started a comprehensive leather development program in India through NLDP. Involvement of such agencies along with the feedback from local producers may provide another route for collective action in SFCs, particularly when business associations are weak. The process of certain common initiatives that were taken in this cluster is discussed below.

The initial involvement of NLDP in itself came due to interaction between the state government and the chairman of local leather association, who happened to be from the saddlery industry. Once NLDP decided to run a program especially for saddlery in addition to its ongoing program for leather industry in general, it invited industry for suggestions for what was required to be done. NLDP worked with a small and very active group of exporters. This set of exporters had worked together before, for a similar project by CLRI (discussed in detail in Section 6.8) and many of the members also travel together for the SPOGA trade fair. In this small group too, members belong to both the communities. With their help, two key areas- need for making moulds for polyurethane trees, and establishing a training institute with modern machining facilities, were identified. The polyurethane tree project again required co-operation with another institute. This was successfully done with one of the engineering colleges in the city, Indian Institute of Technology, Kanpur. These findings are in partial agreement with Sabel (1992). In his study of industry in Pennsylvania, Sabel found that with the help of the local government, entrepreneurs from diverse backgrounds, but who had previous experience of working with each

other could agree upon certain common action. Sabel calls this process 'studied trust'. In the Kanpur cluster, the state government played only a limited role. Instead, we find that mediation through an international agency too could bring about certain collective processes among members, who share experience of working together but not necessarily have characteristic similarity. But the reach of the Pennsylvania program was wider than what we observe in this cluster.

Apart from the interaction among members of NLDP and industry, the effort to make polyurethane tree mould and training institute were possible because NLDP coordinated it and was able to bring its own finances. NLDP was able to inspire confidence among entrepreneurs because of its reputation for having worked previously with such issues. This is a finding close to what is suggested by the concept of 'institution based trust' (Zucker, 1986) where trust seems to be a result of a formal societal structure. In Kanpur saddlery cluster entrepreneurs consider NLDP an institution of repute and to that extent have trust that the initiatives taken under its program may be successful.

Collective action for the polyurethane mould and training institute was also possible because of the nature of the activities were such that it did not require participation from the industry in large numbers right from the beginning. Both the projects were such that the awareness could spread slowly without harming the projects. On the other hand to do something constructive about the situation of intense price competition, participation in large numbers would be a prerequisite, which at this stage of awareness does not seem possible. In such a situation no solution could be

found that was widely applicable. In the absence of a strong business association, there seemed to be a lack of a platform from which such issues could be launched.

## 7.6 ROLE OF NORMS IN FOSTERING CO-OPERATION

Institutions play a crucial role in fostering co-operation. The ID/SFC literature has put emphasis on formal specialized institutions like trade association, workers association or other specialized institutions that provide services to the entire cluster. However, institutions can be informal too and it is acknowledged in ID/SFC literature that values and norms play a role by providing for common work ethos and business practices. But these have been mostly mentioned in the passing, and in connection with characteristics based identities such as religion, ethnicity, region or extended family ties (Nadvi and Schmitz, 1998, Pyke, 1992). The issue has not been clearly articulated in the ID/SFC literature, as it has not been viewed separately from characteristics based ties. Based on the findings of the present research, we would like to argue that norms might provide for co-operation among entrepreneurs and lead to greater stability in a cluster.

In our research we find that many collective activities are based on norms than purely on formal institutions and they have a significant role in functioning and stability of the cluster, particularly when formal institutions are not providing for the same. Hence, we feel it is appropriate to introduce a discussion related to norms that has developed in sociological literature and is helpful in explaining the behavior of SFCs. We discuss the actual practices after the theoretical discussion.

### 7.6.1 Norms: A Theoretical Discussion

Institutions can be seen as both formal as well as informal. According to Scott (1995)

Normative systems include both *values* and *norms*. Values are conceptions of preferred or the desirable together with the construction of standards to which existing structures or behavior can be compared and assessed. Norms specify how things should be done, they define legitimate means to pursue valued ends. Normative systems define goals or objectives (e.g., winning the game or making a profit) but also designate the appropriate ways to pursue them (conception of fair business practices) (Scott, 1995: 37-38).

Thus for us, norms are rules of conduct or way to do things. They involve a judgment of behavior but not necessarily sanctions based on the judgment. Our main concern has been to identify certain norms that are seen as important in explaining co-operative behavior in SFCs. We turned our attention to such norms described in the literature dealing with networks or inter-firm relations in general. We also looked at other sociological literature, which deals with economic issues to see if certain norms can be found that affect business.

- ***Rationality Limiting Norm*** 'A rationality limiting norm is a norm that stops us from doing certain things or choosing certain options, irrespective of how much utility that thing or option gives us' (Basu, 2000). Consider the example of paying up a taxi driver even though we are never likely to meet him again. If one does not pay, it is in self-interest. But probably no one calculates such a scene and then



decides to pay up, taking into account that probability of getting bashed up is little, and then one can anyway get bashed up even after paying (Basu, 2000) For every business certain things are just not done

- **Preference Changing Norm:** Certain preferences can get ingrained and hard to change. The source might be religious practice or practice of a region. Such a norm may be referred to as a preference changing norm (Basu, 2000). A prime example of this would be the aversion of Hindus to raw hides and cow leather. However much economic rationality may call for use of cowhides for certain products, but it will not be used. Similarly one still finds very few Hindus, if any, in tanning business but they are now ready to handle finished leather.
- **Norm of Reciprocity:** Gouldner (1960) considers norm of reciprocity universal. To requite a benefit, or to be grateful to him who bestows it, is probably everywhere regarded as a duty. He sees two inter-related ways in which the norm operates. People might help those who have helped them and people should not injure those who help them. He further states that the norm may involve returns that are 'rough equivalents'.
- Elster (1989) gives further examples of social norms like consumption norms (that regulate manners of dress, table, etc.), norms against behavior contrary to nature (like rules against cannibalism, sodomy, etc.), norms regulating use of money, norms of reciprocity, norms of retribution (to return harm done to us by

others), work norms, norms of co-operation and norms of distribution (what is seen as fair allocation of income) Based on these descriptions we now try to explain certain behavior in the Kanpur saddlery cluster as norm based

### ***7.6.2 Role of Norms in Fostering Co-operation in Kanpur Saddlery Cluster***

Norms function in the cluster irrespective of the personal relationship that entrepreneurs have with each other and have an implication in providing stability to the entire cluster We reported earlier that there are no contracts among businessmen in this cluster The practice is based on normative behavior rather than a matter of personal experience Even in case of new ties, a contract is not demanded because it is simply not considered a way to do business No one reported use of a contract anywhere in the cluster Still the practice could be sustained because exporters and suppliers emphasized two things in conjunction with non-use of contract One, that in absence of a contract, trust governed the relationship and secondly, they were reasonably assured that no one comes to business with the aim of vanishing with others money. Hence, the issue of contracts was not important in doing business with others in this cluster

The most striking example of normative behavior involves the issue of labor advances As discussed earlier, in Section 5.4.1, labor in this cluster is free to move between firms, as it has no permanent employment and works on the basis of projects Many of the labor groups work on the basis of cash advance and typically firms expressed

*Workers are on contract in this firm. But even when there is no work I give them some advance to be adjusted when work comes to my firm again. The workers demand it saying they need to eat even when there is no work with the firm. But then workers can take the advance and when work has arrived, by that time they are with some other firm and refuse to come back. To cope with it there is a union of people and they refuse to take such workers before enquiring with each other*  
(E1)

Here the term 'union' was used in the sense of a small group of friends. Many exporters in the cluster reported that checking for labor advances with each other is a widespread practice and they are free to contact the other exporters. There are many exporters who admit that their request is met and they too would try and meet such a request. Exporters realize that anyone could face this situation and thus one should heed to such a request.

*If one calls up an exporter and tells him that he has a worker who has advance to settle, most people see to it that it is done. It is not necessary to know a person to make such a request. Sharif log consider kar lete hain, per kuch log ignore bhi kar sakte hain, ke meri a kya jata hai. Per log ye samajhte hain ke mere sath bhi aise ho sakta hai* (Decent people will consider such request but a few exporters may ignore it too thinking that there is nothing to lose. But most of the people understand that it could happen to them some day too) (E16)

Personal ties or familiarity is not required to make such a request. All one needs is the information that his labor is indeed working at a certain place and to have the phone number of that exporter. Though such a request is not heeded all the time, exporters agreed that such a request could be made to anyone.

Another area where norms came into picture is for making an adjustment when the cluster as a whole is going through a crisis, like last year at the time of this fieldwork. Due to two major global events (outbreak of foot and mouth disease in UK/Europe and attacks on the USA on September 11, 2001) foreign buyers cancelled orders they had already placed. In such a situation exporters were unable to lift the orders they had placed with their local suppliers. Both exporters and suppliers agreed that they would wait till the situation improved. Care is taken so as not to harm the supplier, if it could be avoided. Exporters tried to lift orders in parts and suppliers too at this point are willing to forego their normal profits.

In conclusion, it can be argued that non-use of contracts is applicable to all the business transactions within the cluster, be it a new deal or an old one. Here the practice seems to have the force of norm rather than being an issue of personal ties. In the instances of labor advances and crisis due to external events individuals would benefit by not paying attention to the other party. In case of labor advances, an exporter may ignore requests, as he may never have such an issue with the same exporter in the future. In the instance of adjustment during crisis too, suppliers could demand that the goods ordered should be lifted. But in both the cases such seemingly rational responses are not forthcoming and they can be interpreted as cases of

‘rationality limiting norms’ (Basu, 2000) The case of labor advances points out that in absence of a strong association that could monitor such behavior, norms can play the same role although the exact nature of it will differ according to the needs of different clusters

In the light of the above findings, the scope of norms, as discussed in the existing ID/SFC literature, only for providing common values and work ethics (Nadvi and Schmutz, 1998, Pyke, 1992) seems very limiting Based on the discussion above, we would like to argue that norms are providing for co-operative behavior among entrepreneurs of the Kanpur saddlery cluster even when personal relations are absent Probably norms provide favorable preconditions for the trust based ties to develop through personal interaction, as argued in the concluding parts of the Section 7.2 Though this whole aspect of norms developed as a consequence of data analysis and was not anticipated through literature review, yet one may speculate that prevalence of written contracts or absence of a mutual caring in periods of crisis could have mitigated against development of trust based ties even through one-to-one personal interactions Thus we conjecture that norms provide the generalized cluster wide bedrock over which, probably the edifice of trust based ties amongst selected group of exporter-supplier and exporter-exporter relationships are developed But norm to trust linkages need detailed inquiry and remain a possible area for further research

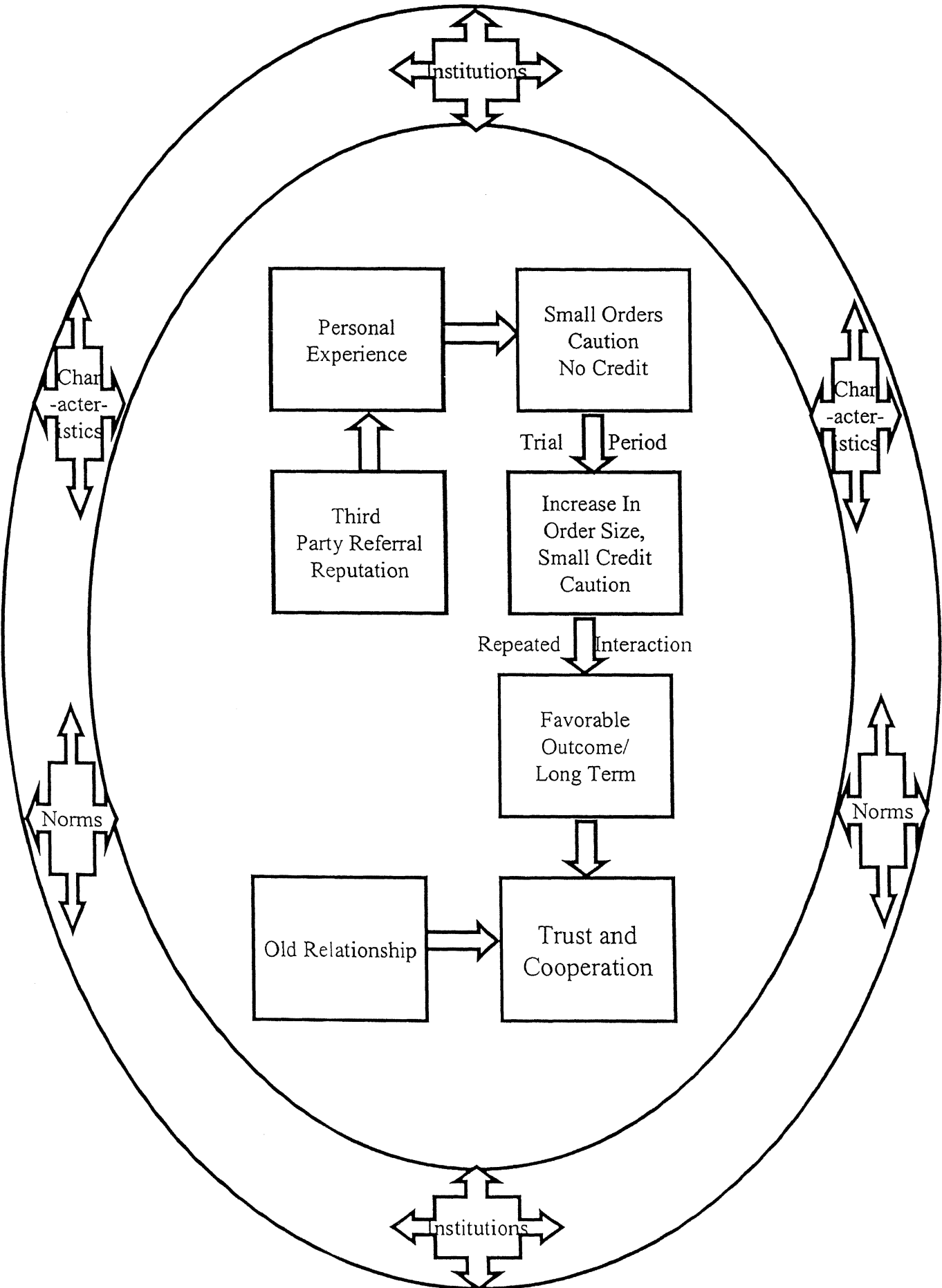
## 7.7 FRAMEWORK FOR CONCEPTUALIZING TRUST RELATIONS IN SFCs

In this chapter the findings of the study have been discussed by pitching them in debate with the existing ID/SFC literature. We sum them up in the Figure 7.1. We find that apart from characteristic based ties that the existing ID/SFC literature emphasizes, knowledge based inter-community ties can also lead to trust and co-operation. Knowledge based ties develop because of having familiarity with the other party. These ties do not form automatically but develop through repeated interaction.

Trust and co-operation may emerge because of personal experience. Initially entrepreneurs interact with caution and give only small orders to suppliers. Suppliers in turn are reluctant to offer credit. In this phase, that we call a trial period, both the parties monitor performance. If the first few dealings go on satisfactorily, then a gradual increase in orders and credit is possible. As shown in the Figure 7.1, to get out of this trial phase repeated interactions are required. If interactions go on favorably for a sufficiently long period of time, trust and co-operation emerge.

Another starting point for a relationship can be through third party referral, where entrepreneurs ask a known party for information about a new firm. But this information is used for initiating the tie, and trust and co-operation form again, after successful personal experience. As shown in Figure 7.1, old ties, through their satisfactory past experience can directly lead to trust and co-operation. The previous

FIGURE 7.1: NATURE OF TRUST IN SFCs



literature also suggests that reputation as conveyed by the formal indices can also provide a starting point for a relationship

Institutions like business associations, trade associations, research and development centers can provide for important collective services for a cluster as a whole. As previous research have suggested such institutions can be based on characteristic ties. Based on the findings of this study we suggest that collective action is also possible due to confidence generated by involvement of an international agency and their interaction with a small group of exporters. We suggest that apart from institutions, norms that cut across communities can lead to collective actions in a SFC as well. Further, norms may also provide cluster wide generalized preconditions for trust and co-operation to emerge.

To sum up, in this present work we have tried to argue that in addition to characteristic based ties, trust can be knowledge based in a SFC. Knowledge based ties develop because of familiarity that develops through favorable interaction over a long period of time among parties. Institutions can also lead to collective action in a SFC even when clusters do not have homogenous membership base. One route to such action can be interaction among members of an international agency and a small group of entrepreneurs. We have also tried to argue that apart from formal institutions, informal institutions are playing a role in fostering trust and co-operation in a cluster. We would thus like to conclude that SFCs maybe able to reap the benefits associated with IDs without the narrow requirement of characteristics based trust and institutions. In the next chapter we provide the conclusions of this research.



## CHAPTER 8

### CONCLUSION

In the section 3.4 after reviewing the literature related to ID/SFC and trust, we had the following specific questions

- 1 Are there other routes to trust amongst entrepreneurs in SFCs apart from common characteristics?
- 2 Can trust amongst entrepreneur in SFCs be knowledge based?
- 3 What are the processes that lead to knowledge based trust in SFCs?
- 4 What role do institutions play in fostering trust and co-operation in SFCs?

We attempted to answer these questions through a case study conducted in the Kanpur saddlery cluster. We found evidence for co-operation and trust that emerged through knowledge about the other party. We also found that collective action was possible because of interaction between international agencies and an active group of small entrepreneurs, even if business associations were weak. Normative practices too lead to co-operation in this cluster. The findings are discussed in detail in section 8.1. Section 8.2 is about the implications of the findings. The limitations of the work are discussed in section 8.3 and suggestions for future research have been provided in section 8.4.

## 8.1 FINDINGS

The present study found evidence for ties that extend across communities and are based on trust and co-operation. Trust and co-operation in SFCs can be knowledge based where trust develops because of knowing the other party sufficiently well. Knowledge based ties develop through interaction, unlike characteristic based ties that seem to form more or less automatically due to the social similarity of the actors involved. Knowledge based trust develops gradually and the initial interaction may be marked by an approach of caution on part of the entrepreneurs in the beginning of a relationship. Producers may give only small orders and suppliers may offer no credit. This period can be seen as a trial period where both the parties are proceeding with caution. Only after sufficient interaction over a fairly long period and favorable personal experience does trust develop.

Reputation in the form of formal indices like credit reports, firm ratings, etc. is not relevant for this cluster as such mechanisms have not developed as of now. Third party referral is taken for seeking additional information about the other party. Still in this case too, trust develops through favorable personal experience, as described in the preceding paragraph. Old ties can also provide for trust and co-operation.

Co-operation can manifest in various ways and it can have an element of well being for both the parties to the transaction. Price differentials do not have much meaning in these ties nor does monitoring the other party's performance seem important. If business associations do not play a prominent part, some collective action is still possible because of confidence inspired by involvement of an international agency.

Their task can further get facilitated by a small group of active entrepreneurs, who are willing to take initiative for cluster wide issues. This group of entrepreneurs again may belong to different communities and have common experience due to working together on issues related to the cluster as a whole.

Norms play an important role in fostering co-operation in Kanpur saddlery cluster. Co-operative behavior may not always be due to familiarity that comes through personal experience but because of normative practices of the cluster. Practices like adjustment in orders placed during common crisis, not having written contracts or adjusting labor advance with each other are normative practices and here co-operation is not because of personal ties. Such normative behavior may provide favorable preconditions for development of trust based ties. However, the role of norms is under-researched in ID/SFC literature.

## 8.2 IMPLICATIONS OF THE FINDINGS

Previous research has pointed out that trust based ties form according to characteristic ties, but if this was the case, then regions that are not marked by strong characteristic base could not draw lessons from what is considered to be a successful model of development through small firms. Previous research has also cast doubt about characteristic as not the only route to trust and co-operation in SFCs. The findings of the present work provide support to the previous research. This research finds evidence for knowledge based ties, ties that arise due to knowing the other party well and familiarity. So for SFCs, to reap advantage of lessons offered by the IDs for

development through trust and co-operation, restrictive and close membership base does not seem to be a precondition

Another implication of the study is for functioning of institutions. Collective action on certain aspects might be successful when an international agency is involved, even when there may not be a strong business association. International agencies may be able to provide common facilities, particularly in developing nations, where SFCs cannot come up with such facilities on their own through business associations. Such agencies may inspire confidence because of their credentials of having previous similar experience in other parts of the world.

The importance of normative practices for issues of trust and co-operation again has implication for functioning of SFCs. Here it should be stressed that the discussion is about norms that cut across community ties. Though by this argument, we do not deny the possibility that there might be a subset of norms applicable only to a given community and also very important for co-operation and trust. Norms can promote co-operation even when personal ties are absent, as it was demonstrated in the case of issues related to labor advances and adjustment in orders already placed. By doing so, norms help in providing stability to the entire cluster. However, the role of norms in fostering co-operation in SFCs is little understood and requires further research.

### **8.3 LIMITATIONS OF THE PRESENT RESEARCH**

As the research is based on data collected from only one SFC, these findings may not be entirely applicable to other settings. However, the present work draws from the

findings of existing literature on ID, SFC and trust to interpret the data. By this process the present work has attempted to make the findings generalizable for other settings as well.

The issues related to collective action have an important bearing on the functioning of an ID or SFC, as they have region wide implications and the potential to manage conflicting situations. These actions often manifest through business and trade associations. However, they could not be studied in detail due to weak business association and an absence of trade association within the cluster.

Traditionally inter-firm ties within the region have been stressed for the success of an ID or SFC. But recent research points out that particularly for SFCs, in developing countries, the nature of ties with foreign buyers might be playing an important role. But the way the present research was designed, it did not study the ties with foreign buyers and is a limitation of the study. The study also does not account for the macro level issues like state or national level policies affecting the SFC.

#### **8.4 SUGGESTIONS FOR FUTURE RESEARCH**

To increase the generalizability of this research, further work can be conducted in the context of inter-firm relations in SFCs, where a clear distinction is made for bases of trust within the firm and also in case of inter-firm ties. This would lead to greater confidence in the findings of the present work and might provide further evidence and understanding of knowledge based trust ties.

In our study, the importance of norms in facilitating co-operative behavior emerged only through data and was not anticipated at the outset of the study. The issue is important as it can lead to greater stability in inter-firm ties in a SFC. Future research can give more attention to the issue and help in analyzing it better.

The issues of external ties, particularly with foreign buyers, may be of crucial importance to the functioning of SFCs, more so in the developing nations, where buyers can often influence the happenings of a cluster through their purchasing power. Decisions like product development, conditions of the workforce, etc. may be strongly influenced by the decisions made by foreign buyers. This aspect could be given proper weight in further research.

## APPENDIX A

### MEANING OF VARIOUS CONCEPTS RELATED TO TRUST

*Written contract:* A legally binding, written agreement between two parties for business transactions

*New relationship:* Where the parties have not transacted in the past, and at the best know that the other party too has been in business for some years

*Third party referral:* There can be two firms unknown to each other, and in such a case, a third person known to one or both can give an initial introduction as to conduct of the unknown party for a business deal

*Reputation:* Index of performance of a firm as indicated by formal institutions, like credit rating agencies, bank statements, etc or such information carried by word of mouth

*Trial period:* A phase where both the firms are evaluating each other for performance and if moving incrementally ahead

***Old relationship:*** A case where people know each other because of going to the same college, belonging to the same club, working in the same firm etc. and choose to work together for each other in their business too. Alternatively people might have known each other in one line of business and choose to utilize it in another line too.

***Favorable outcome:*** An outcome that is satisfactory to both the parties to the transaction

***Repeated transactions*** Doing business over a period of time and placing repeat order to the same supplier

***Small price differentials:*** Small difference in price of a commodity, not more than a few rupees, offered in a transaction

***Long term relationship.*** A relationship that has been in place for more than a year

## LIST OF THE DIMENSIONS USED TO MAP TRUST

Familiarity

Mutual orientation

Voluntary

Favorable interpretation

Absence of monitoring device

Mostly no written contracts or even if they exist not used



## APPENDIX B

### LIST OF INTERVIEW QUESTIONS

#### *Owner's Background*

Who is he/she?

Number of units owned by them?

Which year was the firm established?

Has the business been with the family or the owner started it?

Are there other family members in the same or related business?

What products they manufacture? What is their specialty?

What types of machines are used?

What type of tree they use (wooden, plastic and fiberglass trees)?

What are the changes in the product they make in last ten years?

What all countries they export to?

Do they go to trade fairs (King of Prussia, BETA, Spoga)?

How do they get orders (Direct, retailers like miller, through trade fairs, agents, export houses, any other)?

How many people they employ?

Do you consider your subcontractor apart from your labor? What is his role in your firm?

How do you search for labor when it is required?

How does the labor get trained?

Do the same group of labor gets hired by your firm?

Are there groups among them according to localities they live in?

### *Background of the Cluster*

- Is Saddlery made anywhere else in India?
- Number of firms in the cluster?
- How old is the cluster?
- What is the average firm size in the cluster?
- What is the role of the British Government?
- Who were the owners initially?
- Was production primarily geared towards military?
- What happened after military demand fell?
- How did the cluster make the transition?
- What happened to the firms of that time?
- What have been the turning points for the cluster?

### *Inter-Firm Relations*

- Who are the key suppliers? (Leather, metal fittings, trees)
- What all they buy from outside?
- Does a particular community dominate a profession?
- How many firms work for them in a given year? Where are they located?
- How many firms do you typically buy/sell to in a given year?

### *Vertical Co-operation*

- Who are your main suppliers?
- How did you hear about him first? Can you give me specific examples? (Are they family members or relatives or from the same community or totally unrelated)?
- How did you find your leather, metal, tree and textile supplier?
- How old is the relationship?
- Do you have legal contracts with your suppliers?
- How does the business work in absence of it? What safeguards are in place?
- Do you inspect your supplier's work?
- Are there other firms producing same thing as your supplier?

Do you give trial business?

How do you evaluate the performance in this period?

What precautions do you take at this stage?

Do you monitor the work of your supplier at their premises?

What leads to more orders?

Is reputation important?

How do you check the reputation of a person (market indices or third party referral)?

How does the typical relationship begin and develop over time?

Is there a group working together? (Do your supplier gets business via you with someone else)

How do you evaluate your supplier after you have spent some time with him?

What concessions you give each other?

What is the role of credit in your business?

When is a credit given?

How much time will you take to reach this stage?

What else is the result of having a supplier for a long time? Can you give me specific examples?

How frequently do you monitor the supplies at this stage?

What if the initial terms and conditions change?

If disagreements occur how are they resolved?

What if lower price is offered to you by another contractor?

Do you meet only for business?

### ***Horizontal Co-operation***

For what reasons do you interact with other producers? (lending of tools, dividing of orders, joint consortia, seeking advice)

Do you work in collaboration with any other producer?

Are there many people selling to the same buyer? Does it lead to interaction among the people here in Kanpur?

Are there individuals in the cluster who are considered as elders? What role do they play?

Can dispute occur among producers? How is it resolved?

How does every one know about every one? How does this information travel?  
(labor, supplier)

Is there any mechanism to enforce pricing of products?

What major changes in product have come around? (Like switching to nylon halters)

How do these changes diffuse?

What role does a business association play?

Do they use certain services that are common to other users? Like consultants?

When labor is not permanent and rotates, passes information, how is this conditioned managed?

What common initiative the industry has taken?

Does industry takes certain decisions together?

How does it happen?

What will they like too see changed for the better of everyone?

How did the training institute idea originated and got implemented?

How helpful are the institutions located in Kanpur? (NLDP, IITK, CLE, CLRI)

How did they come to IIT-Kanpur together for the moulds?

## APPENDIX C

### LIST OF CODES FOR TEMPLATE ANALYSIS

#### *1 Background*

- (i) Geographical concentration
- (ii) Small Size
- (iii) Product
  - (a) Type of saddle
  - (b) Special leather
  - (c) Saddle trees
  - (d) Making of a saddle
  - (e) Design
- (iv) Buyers
  - (a) Market segment
  - (b) Generating orders
- (v) Specialized institutions

#### *2. Labor*

- (i) Contracting system and stability (new code)
- (ii) Wages
- (iii) Training

#### *3. Vertical Co-operation and Trust*

- (i) Producer job worker relations and producer supplier relations
  - (a) No written contracts
  - (b) Voluntary

- (c) Lack of monitoring
- (ii) Development of relationship
- (a) Small order and caution (trial period)
- (b) Third party referral
- (c) Reputation (can be deleted)
- (d) Repeated interaction
- (iii) Mutual benefit
- (a) Easy credit
- (b) Adjustment of delivery dates
- (c) Assurance that quality is met
- (d) Accepting orders to help a supplier
- (e) Less importance to price differentials
- (iv) Lack of strong community ties

#### ***4. Horizontal Co-operation and Trust***

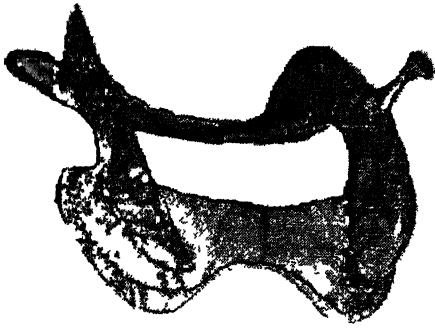
- (i) Producer to producer relations
- (a) Sharing buyer information (knowledge and characteristics)
- (b) Co-operation for obtaining labor advances (norm) (new code)
- (c) Helping in foreign market (characteristics, knowledge)
- (d) Issue of price competition
- (e) Spoga

#### ***5 Institutions***

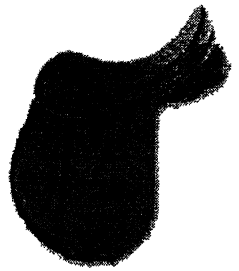
- (i) Interaction through business association
- (ii) Role of Institutions

# APPENDIX D

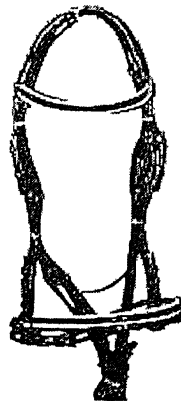
## VARIOUS SADDLERY PRODUCTS



Saddletree



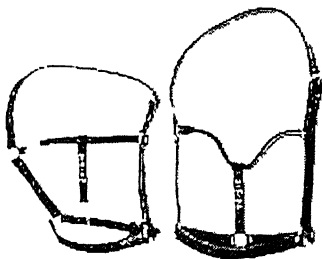
English Saddle



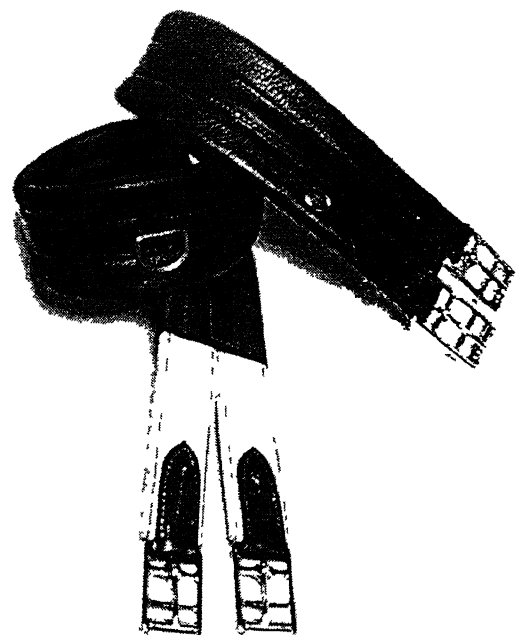
Bridle



American Saddle



Halter



Girth

## APPENDIX E

### LIST OF MACHINES WITH NLDP

*Strap cutting machine:* This machine is used for cutting leather straps of certain length and width, by specifying it automatically in the machine

*Cementing machine:* Is used to join two pieces of leather. One can put in the glue and the machine adjusts the amount and the joining of the two pieces is quite even. When the same thing is done by hand the glue applied can be uneven and that can result in the product getting spoiled.

*Clicking machine:* It is a machine used for cutting leather of irregular shapes by the help of die. This machine can cut many of the shapes used in making a saddle.

*Double eyeleting machine:* Is used for making holes in a piece of leather or nylon.

*Edge grinding and finishing machine:* When a piece of leather is cut, the edges are uneven. By the help of this machine, the edges are made smooth so that coloring, etc. can be even.

*Hot air thread burner:* This machine is used with nylon thread to get its edges sealed. Nylon piece is passed through the machine blowing hot air and the edges are sealed.



***Manual edge folding machine:*** This machine is used to fold the leather in various shapes. It is used in making of leather bags etc.

***Automatic hole punching machine:*** Is used for making required number of holes in a piece of leather. One has the freedom to define the number of holes per piece. It gives a very even spacing, unlike when done by hand where the length can vary.

***Hole punching machine:*** The only difference is that one has to keep pressing a lever to get the holes with this machine, whereas the automatic one works after switching on and specifying the gaps.

***Pneumatic stamping machine.*** Is used to stamp logo of the firm, etc.

***Hot ruling machine:*** This machine is used to make creases at the leather.

***Double and single edge inking machine:*** This machine is used to put color on the edges of the leather.

***End thinning machine.*** For certain products like belts, the end of the leather needs to be thinner than the rest and this machine is used for doing it.



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